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CIVIL SERVICE PAY REFORM

HEARINGS

BEFORE THE

COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

ON

S. 2274

TO ESTABLISH A FEDERAL PAY SYSTEM WITH LOCALITY-BASED ADJUSTMENTS

SECOND SESSION

MARCH 21, 22, 1990

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CIVIL SERVICE PAY REFORM

WEDNESDAY, MARCH 21, 1990

U.S. Senate,
Committee on Governmental Affairs,
Washington, DC.

The Committee met, pursuant to notice, at 9:40 a.m., in room SD-342, Dirksen Senate Office Building, Hon. John Glenn, Chairman of the Committee, presiding.

Present: Senators Glenn, Levin, and Roth.

OPENING STATEMENT OF CHAIRMAN GLENN

Chairman Glenn. The hearing will be in order.

Good morning and welcome to today's hearing on S. 2274, the Federal Pay Comparability Reform Act of 1990: legislation which I introduced earlier this month. This bill would revise the current pay-setting process for the white-collar work force totaling about 1.4 million civil service employees. This legislation is necessary because recruiting and retention problems due to inadequate Federal pay have grown enormously and can no longer be ignored. They should not have been ignored this long.

The pay adjustment processes used for over a decade have caused Federal pay rates to fall far behind the rates paid in the private sector for similar jobs. The Pay Comparability Act of 1970 calls for pay comparability between the Federal and private sectors. However, every year since 1978 presidents have proposed Federal pay increases at amounts lower than those received by private sector workers. As a result, a pay gap of 25 percent exists today and the Government simply is not competitive with other employers, especially in the high-cost, high-paying urban centers of the country where many Federal agencies are located.

A recent study by the Congressional Research Service found that the purchasing power of Federal salaries has declined by almost 25 percent since 1977 because pay increases have not kept pace with inflation. Is it any wonder that we hear complaints over and over again from Government officials about the difficulties they face in hiring the staff they need to carry out their missions?

We can't possibly list all the cases that we are aware of, but let me list just a few, cite a few examples. Law enforcement officials tell us that inadequate pay is hampering their efforts to attract and retain the people needed to fight the War on Drugs. Department of Energy officials say they cannot recruit the nuclear engineers they need to run their facilities because pay is too low. I have had numerous conversations with Admiral Watkins, the Secretary of Energy, on that very subject about his difficulty in hiring people to do the nuclear clean up that this Committee has been pushing for for years. Securities and Exchange Commission officials say that low pay is the biggest problem facing the agency because it can no longer hire the attorneys needed to police the markets. We could go on and on with many examples.

In 1988 the New York Federal Executive Board, which includes representatives of all major Federal agencies in the area, made a survey to get information on the staffing situation in these agencies. The board found recruiting and retention problems in all agencies. Among the professional occupations, the board found that one-third of the positions were vacant. Loss rates for entry level professionals at the GS-5 and 7 levels were an incredible 50 percent and 52 percent respectively. Similarly, the board found that one-half of the clerical positions were vacant because people were not interested in the jobs at the pay rates offered. Of those hired during the year, 37 percent quit for higher pay. As a consequence, agencies were contracting for word processing clerical support at hourly rates equivalent to annual salaries of $42,000, substantially higher than the $18,000 per year that Federal employees were being paid for the same work.

As you can imagine, such high vacancy and turnover rates can seriously impact agencies' operations and their ability to serve the public. How can we expect high morale when Federal workers sit side by side with contract employees who are paid more than twice as much to do the same work?

To address these problems my bill takes a significant first step toward closing the pay gap by instituting a form of locality pay to make the Government more competitive in the areas where the gap is the greatest. It would add a locality adjustment to basic pay rates in those areas where nonfederal pay rates, both private sector and state and local governments, are above the national average. It would also keep the overall gap from widening by mandating that annual adjustments in basic salary rates will be at equal to the national average percentage increase in nonfederal salaries each year.

Other provisions in the bill would give agencies more flexibility in their recruiting efforts. Agencies would be authorized to hire new employees at salaries above the minimum rate for the appropriate grade when they meet certain criteria. Also, the bill broadens the circumstances under which special rates could be authorized and authorizes even higher rates for 100 critical pay positions Governmentwide.

Last year Congress addressed the inadequate pay levels of Federal executives. It is time now for us to turn our attention to the problem of low pay for the rest of the workforce.

As witnesses we have with us today Representative Green from New York, Ms. Constance Berry Newman, Director of the Office of Personnel Management, Mr. Richard L. Fogel, Assistant Comptroller General, Mr. Martin Duggan, Chairman of the President's Advisory Committee on Federal Pay, Dwight Greenspan from GTE Corporation, Madelyn Jennings from Gannett, Incorporated, and Mr. Donald Black from Rockwell International.

Tomorrow we will have as witnesses representatives of employee organizations—the American Federation of Government Employees, the National Federation of Federal Employees National Treasury Employees Union, the Federal Managers Association, the Professional Managers Association, and the Federally Employed Women. Also we would welcome statements from other interested parties as time doesn't permit us to hear from all of those who have asked to testify. So we do welcome comments from other individuals or from groups.

Senator Lieberman was unable to attend today's hearing and he has a statement for the record to be inserted at this point.

[Senator Lieberman's opening statement follows:]

OPENING STATEMENT OF SENATOR LIEBERMAN

Mr. Chairman, for some time now, the federal budget deficit has touched virtually everything we in the Congress and the Administration have tried to do. As we have struggled to deal with the deficit, however, we have too often been penny wise and pound foolish. A prime example of this has been our failure to pay federal workers a fair and competitive salary—which has made it extremely difficult for the Federal Government to attract and keep skilled workers and generally diminished the effectiveness of many federal programs.

One problem that has concerned me is the impact on federal firefighters of long hours and low pay. Federal firefighters work, on average, a 72-hour week, performing uniquely demanding and dangerous work. It costs the government a great deal to recruit firefighters and train them to do their jobs effectively. But how can we expect to keep these trained employees when their state and local counterparts work less and are paid more? I have introduced legislation, S. 2270, that would reduce the workweek of federal firefighters and provide better pay and overtime for them.

While the situation of the firefighters is particularly pressing, the problem of uncompetitive pay is a serious one for the entire Federal Government. Year after year, by keeping federal salaries low, we have made it more and more difficult for all federal agencies to recruit and retain skilled workers. This is especially true in some of the larger cities where the cost of living is extremely high. And, make no mistake about it, this does affect the ability of federal agencies to carry out the functions we assign to them.

For example, FBI special agents in the New Haven, Connecticut field office have been struggling to get accelerated grade raises, so that they can meet the high cost of living in that area. The FBI cannot be expected to retain trained agents who earn less than their counterparts in the state and local police.

Similarly, when I was home during the last recess, Mr. Chairman, I had the opportunity to meet with several employees of the Internal Revenue Service and the U.S. Treasury Department who work in Connecticut. In that and other meetings, these public servants have repeatedly raised with me the difficulty they have making ends meet because of Connecticut's high cost of living. They also told me of the trouble the IRS in Connecticut has had in retaining revenue agents and auditors. While the IRS is able to hire people straight out of college, after these people get their CPA and some experience—that is, at the point that they are becoming truly productive auditors and agents—they leave to take advantage of much higher salaries in the private sector. This loss of experienced agents and auditors cripples the IRS' ability to carry out its important functions. These federal employees have all told me that locality pay would go a long way toward helping the IRS retain talented, experienced, and public-service oriented employees.

Mr. Chairman, we have already heard in this Committee about the serious problems we have in collecting the taxes that are due. GAO has estimated that the IRS may be unable to account for and collect over $60 billion dollars in accounts receivable. There may be a lot of reasons for this, including an outdated computer system, but inadequate pay and the inability to retain skilled employees certainly contributes to the problem.

The pay reform bill introduced by Senator Glenn would begin to address the inadequacy of federal salaries by providing for locality pay and certain automatic pay adjustments, particularly for workers in expensive cities. I commend the Chairman for his leadership on this issue and look forward to working with him on the legislation.

Chairman GLENN. Our first witness today is Bill Green, Representative of New York. Bill, if you would come to the table please, we would welcome your statement. We appreciate you coming over today.

TESTIMONY OF HON. BILL GREEN, A U.S. REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. GREEN. Thank you very much, Mr. Chairman, and I appreciate your initiative in holding these hearings in developing your legislation and in welcoming me today. I have a full statement[1] which, if you will permit, I would submit and simply make some informal comments.

Chairman GLENN. Your entire statement will be included in the record.

Mr. GREEN. My interest in this problem began because in the years 1970 to 1977 I was HUD Regional Administrator for Region II, New Jersey, New York, Puerto Rico, and the Virgin Islands, headquartered in New York City. So I had to wrestle with this problem as someone trying to maintain a good staff for that office. I think from everything I have seen the problem has gotten much more acute since that day. My attention was particularly called to that by the Federal Executive Board study to which you have referred in your opening remarks and I won't repeat what you have already covered. But plainly the turnover is very high and Federal pay scales in New York City simply are not competitive in a city where, for example, the starting lawyers starting with major law firms are getting paid $80,000, $82,000, and $84,000 a year.

I don't suggest that the Federal Government is ever going to be able to compete with that and, obviously, young lawyers are going to go with Federal agencies for the experience they can get which they might not get as a first or second year associate with a law firm, but also there are limits to the differential you can have and still expect to recruit people.

Congress has started to recognize that there is a problem. We have started to deal, for example, with the difficulties the FBI has had in rotating agents into New York City, and we have made some provision for special adjustments in those kinds of cases. But I think the report of the Federal Executive Board and the material that you have assembled demonstrates that these kinds of partial responses are simply inadequate to what is a problem that is not limited to the FBI but spreads across all Federal agencies, and we need top-notch Federal employees not just in law enforcement but throughout the range of Federal program delivery.

For that reason, I introduced H.R. 182, which, in essence, requires the Bureau of Labor Statistics to develop and implement a method for determining cost of living in each area of the country relative to the cost of living in the District of Columbia. And it then goes on to provide that employees' salaries would be increased by a percentage corresponding to the percentage by which the cost of living in such an area exceeds the District's cost of living as determined by the Bureau. I have no pride of authorship in this approach. I simply wanted to get the issue on the table so that Congress would give it serious consideration.

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[1] See p. 94.

I certainly welcome the legislative initiative which you have produced and, again, I thank you very much for holding these hearings and I hope that Congress will now rise to this challenge and meet the needs which we desperately have in the high-cost of living parts of the country of being able to recruit and retain good Federal employees through competitive pay scales. Again, thank you very much for having me.

Chairman GLENN. Thank you very much. I don't have any particular questions except we look forward to working with you through this year, and I hope we can get something out this year. It will be a short legislative year, being an election year, but I hope we can get something through this year.

Mr. GREEN. I hope that prediction of a short legislative year is right. In the case of the House, I wouldn't guarantee it.

Chairman GLENN. I hope so too. You have one of the toughest problems of all there in New York. Some of the examples that we have seen are the most egregious abuses of our pay system I know of in the New York area, and it is a wonder we get anybody to work at some of the comparable scales. It sounds good across the country as far as national averages, but when you try and live in a place like New York, which is expensive to live in, and you don't have—a lot of people have to go into debt to live up there to do their job at the Federal level. So we look forward to working with you on this, Bill, and thank you very much.

Mr. GREEN. Thank you very much, Senator.

Chairman GLENN. Our next witness today is Ms. Constance Berry Newman, Director, Office of Personnel Management. Ms. Newman has been in that office for almost a year now. You may recall that at your confirmation hearing last year, Ms. Newman, we talked about how it was absolutely essential that OPM provide strong and vigorous leadership in addressing the growing pay gap and the related recruiting and retention problems across the Government.

I know you have spent a lot of time, you and your staff, studying these pay problems. We don't have the Administration's proposal yet, and as the Government's chief personnel officer your participation in this debate on civil service pay reform is very crucial to us, obviously. So we look forward to hearing your testimony and also any information you have about what may be proposed from the Administration.

TESTIMONY OF CONSTANCE BERRY NEWMAN, DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT, ACCOMPANIED BY CLAUDIA COOLEY, ASSOCIATE DIRECTOR FOR PERSONNEL SYSTEMS AND OVERSIGHT

Ms. NEWMAN. Thank you very much. I have with me today Ms. Claudia Cooley, who is the Associate Director for Personnel Systems and Oversight.

Mr. Chairman, I would like to thank you very much for inviting me to appear today to discuss Federal pay reform. I am looking forward to working with you and the Committee on what I believe will be the most important human resource management issue facing us this year, the reform of the Federal pay system.

The General Schedule pay system, covering more than one million Federal white-collar workers in hundreds of occupations and locations has ceased to function effectively. I know that we share a common concern about the widespread pay problems facing the Federal service and the commitment to finding an alternative approach that will treat employees fairly while enabling the Government to compete successfully in the marketplace at a reasonable cost.

The need for reform of the white collar pay system has been recognized for some time. Over the past two decades numerous studies, including the 1972 Job Evaluation and Pay Review Task Force, President Ford's 1976 Panel on Federal Compensation, President Carter's 1977 Federal Personnel Management Project, President Reagan's 1984 Private Sector Survey on Cost Control, and the 1989 report of the National Commission on the Public Service have all called for a revamping of the General Schedule. Remarkably, all of these studies have echoed a common theme, that is, the need to pay employees more on the basis of occupational and geographic labor markets.

In early 1988 the Office of Personnel Management undertook a comprehensive research initiative to explore alternative approaches to setting pay. The study involved intensive research conducted by OPM compensation specialists and the commissioning of an independent study by the Wyatt Company, an internationally recognized firm known for its compensation expertise. The research conducted by both groups illustrated that the Federal pay system is out of line with the pay practices of other employers and that pay levels for similar jobs vary widely by geographic area and occupation. Both groups concluded that the current General Schedule is inflexible and cannot be sufficiently responsive to labor market forces and pay variations.

I am pleased to be able to say this morning, Mr. Chairman, that the Administration will be submitting a legislative proposal to reform the Federal pay system very soon. In preparing this proposal we have drawn heavily from OPM's exhaustive research, supplemented by previous studies. Also, we have given careful consideration to the deliberations of the Task Force on Pay Reform which I established last September. This group, composed of representatives from Federal agencies, unions, management associations, public interest groups, and private sector experts met on four occasions to discuss key policy issues and review options. I found the work of this broad-based task force, as well as a smaller group drawn from the task force which met regularly, to be extremely helpful in shaping the framework for a credible and enduring alternative to the existing General Schedule system.

While we are still completing the last steps of coordinating views within the Executive Branch on our reform proposal, it is clear that there are significant areas where S. 2274, your proposed Federal Pay Comparability Reform Act of 1990, and the Administration proposal resemble each other.

We are pleased to see that S. 2274, like our proposal, takes a Governmentwide view of the problem. We at OPM have been extremely concerned by the variety of efforts in the last several years to solve the pay problems at individual agencies in isolation from the rest of Government. Every agency in the Government is having some type of problem with the pay system. Continued fragmentation of the Governmentwide pay system will only frustrate and delay the needed solution.

S. 2274 also recognizes, in its locality-based adjustment provisions, that the monolithic General Schedule, applied to every white collar occupation in every area, is no longer workable. We agree that we must have a pay system that is more flexible and responsive to the labor market. This has been a major focus of our efforts in designing the Administration's proposal. We are all acutely aware of the fiscal restraints that we face for the foreseeable future, and we must have a way to direct available resources toward the most pressing problems. As your bill recognizes, the labor market in which we must compete does vary by locality and by occupational groups and we must have a way to adapt to these demands.

While I do not want to suggest that we agree with all of S. 2274, particularly its pay adjustment machinery, I think that it is very significant that we share an understanding of the nature of the problems we face and of the direction in which we must move.

The Administration's proposal would, within budget constraints, restructure the Federal pay system over the next several years. Our proposal would create 2 parallel systems. One system would cover employees normally recruited on a nationwide basis, which generally would be professional and administrative positions. The other system would cover employees normally recruited on a locality basis, which would generally be clerical, technical, and some administrative positions. These two groups would be similar to the general categories for the locality-based adjustments under S. 2274. Basic pay for the national system employees would be set on a national basis with geographic differentials when they are needed to compete in local labor markets. Pay for the local schedule employees would be set on an area basis.

For both groups we would place greater emphasis on rewards for performance. We would also provide staffing differentials and a variety of other differentials and bonuses to provide maximum flexibility to the agencies in their efforts to recruit and retain a high quality work force. Special occupational pay systems could be authorized for groups with special needs, such as health care employees and the special category mentioned in S. 2274, law enforcement employees. We would continue to provide for labor organization involvement and assure that pay decisions would be made at a timely point in the budget cycle.

Of course, we are particularly concerned about the cost of reforming the pay system, and we have made an especially strong effort in developing the Administration proposal to plan out carefully the gradual implementation of pay reform to ensure that there will be no sudden, uncontrolled increases in costs. As the President's budget indicated, we are proposing the immediate implementation in fiscal year 1991 of certain of the most urgently needed reforms.

We are proposing to provide as an interim step geographic differentials of up to 8 percent for General Schedule employees in the New York, Los Angeles, and San Francisco metropolitan areas. While there are other locations where we are encountering problems, these three areas are very definitely the places where agencies are having the most difficulty recruiting and retaining workers, and where they need help right now.

We are also proposing as immediate relief to pay an additional 5 percent to employees in college graduate type entry positions at GS-5 and 7 nationwide. While our rates for many types of workers are competitive in many places, we face continuing difficulty competing with other employees at this critical entry point.

Other immediate relief provisions we are proposing are the extension to all grades of the existing authority to hire superior candidates above the minimum rate of the grade, a provision that is included in S. 2274, and bonuses for the recruitment, retention, and relocation of critical skilled workers.

With the transmittal of the Administration's bill to Congress very soon, we will be able to begin in earnest our work with you to resolve the Government's serious problems with the Federal pay system.

Thank you. We would be pleased to answer any questions you may have.

Chairman GLENN. Good. Thank you, Ms. Newman.

Senator Roth, do you have any opening statement?

Senator ROTH. Mr. Chairman, I do have an opening statement, but perhaps in the interest of time I would ask that it be inserted and proceed with the questions.

Chairman GLENN. Fine. It will be inserted in its entirety.

[The opening statement of Senator Roth follows:]

OPENING STATEMENT OF SENATOR ROTH

Mr. Chairman, the Federal Government is beginning to make strides in improving its ability to recruit job applicants. Earlier this month, six job fairs held around the country attracted more than 110,000 interested individuals. It is estimated that more than 6,000 were hired on-the-spot during this 2-day event.

News reporters, interviewed individuals in Atlanta who waited 5 and 6 hours just to get in the fair. Another reporter captured a recent college graduate as she excitedly called home to tell her parents that she had just accepted a job.

Despite this recent success, however, the Federal Government may very well be experiencing a "quiet crisis." As the pay gap between the private sector and the Federal Government grows, the ability of the Federal Government to recruit and retain valued employees becomes more and more difficult.

The National Commission on the Public Service, chaired by Paul Volcker, released a very important report last year. The report pointed to some startling statistics:

"Only 13% of the senior executives interviewed would recommend that young people start their careers in government, while several recent surveys show that less than half the senior career civil servants would recommend a job in government to their own children;

"Of the 610 engineering students who received degrees at MIT and Sanford in 1986, and the 600 who graduated from Rensselaer Polytechnic Institute in 1987, only 29 took jobs in government at any level; and

"More than 50 percent of the respondents to a recent survey of Federal personnel officers said recruitment of quality personnel had become more difficult over the past five years."

Mr. Chairman, this trend need not continue. I welcome your efforts in proposing to reform the pay schedule and helping to improve the ability of the Federal Government to recruit and retain employees. I do not agree with all aspects of the legislation, including the revised Presidential Pay Council, but I welcome the effort. In addition, we should consider implementing some of the "pay for performance" components experienced under our on-going demonstration projects in places like Chinalake, California and the San Diego Naval Shipyard.

I also look forward to studying the administration's proposal. This is a complex task, but like the reform of the Federal Employee Retirement System several years ago, it is a task this Committee should consider if we are going to remain competitive with the private sector in attracting valued employees.

In the context of Federal pay reform, I would like to mention my early retirement bill, S. 68. I strongly believe the two ideas can go together, Mr. Chairman and I look forward to pursuing this with both you and the Administration.

I envision the early retirement legislation as a transition for the Federal work force, a transition to a leaner, but better paid work force. As we move through the 1990's, the Federal Government must begin to take advantage of the technological advances in the workplace, to help improve worker productivity. Work Stations, advanced communications, faxes, can all help improve productivity in the workplace. And the early retirement bill could provide the transition to this more productive, better paid work force.

At the same time, we will have shifts within the Federal Government. Some Departments will be increasing their work force, while others, like Defense, will be slimming down. Budget savings from the early retirement bill could be partially used to help fund some of the increases in spending for higher salaries under any of the pay reform proposals. And this leads me to my final point.

We must consider all of these proposals in light of the budget. Senator Glenn's bill adopts a two stage approach, yet we are unclear exactly what the second stage will be. Perhaps, we should look to the National Commission which recommended:

"In determining the appropriate increase, the Commission concludes that the current goal of national comparability between public and private pay is simplistic and unworkable, and is neither fair to the civil service nor to the public it serves. The Commission recommends a new civil service pay-setting process that recognizes the objective fact that pay differs by occupation and by localities characterized by widely different living costs and labor market pressures."

The Chairman's bill leans in that direction. And in my understanding, the Administration's approach does the same.

As the Chairman knows, the diversity of jobs and skills of this two million strong Federal work force is as varied as the 50 states from which they come. In my State of Delaware alone, there are 5,000 Federal employees working to ensure that services that are sometimes taken for granted, are functioning properly. These services range from daily mail delivery to the issuing of Social Security checks.

Across our country, Federal employees are constantly dedicating their careers to public service, whether it be the military providing security for our country, a medical scientist searching for cures for cancer and AIDS, or a social worker providing moral and inspirational support to help retrain a displaced worker for a new career. It is critical that we do our utmost to attract and retain the best employee possible. I look forward to these hearings and welcome all of our witnesses.

Chairman GLENN. Ms. Newman, would you define "very soon" for me?

Ms. NEWMAN. It is very soon. [Laughter.]

Chairman GLENN. Let me give a little background. We talked all last year about the need for this, and we hoped to get it introduced last fall. You needed more time and we had set a tentative date that we had tentatively agreed upon as the opening of Congressional business this year. And we waited and we waited, and to be very frank about it, the reason I went ahead and introduced legislation, I wasn't really sure anything was coming very soon, and so we went ahead with this.

Granted I know there are some things in here that are things that you were working on over there and so on, but I felt and I still feel that we have a golden opportunity in the Congress after its—I won't even describe what our pay process here was last year, but we did do something. And I felt that we made a break in this linkage that has always been there between Congress and civil service and that this was an ideal time if we are ever going to move to correct the civil service problem, now was the time to do it. And that is the reason we pushed very hard to get that submitted. So I hope "very soon"—can you put a date to that "very soon"?

Ms. NEWMAN. Yes, but may I say something before I do say that. We have been working since we talked in June, pulling together a task force and putting together options, and I do want to bring to your attention that we did place in the 1991 budget a number of provisions that are steps toward reform. Within the Administration we have had extensive discussions with all the personnel officers, and I would say that within a week we will be prepared with a proposal.

Chairman GLENN. All right, good.

Ms. NEWMAN. Frankly, the Office of Personnel Management has a proposal and the remaining issue being discussed within the administration is about the money.

Chairman GLENN. That is the one I wanted to ask about, because in the 1991 budget it calls for agencies to absorb the cost of pay reform initiatives. Now, is this what the Administration has in mind as we move toward pay reform, or can we expect some new money on the table.

Ms. NEWMAN. The 1991 budget expects that the agencies would absorb 50 percent of the cost, and I am not prepared to talk about what money will be available for reform at this time. That is the issue. That is why I don't have the bill here right now, because we are still talking about that.

Chairman GLENN. Will this be in the form of a request in a supplemental then?

Ms. NEWMAN. I will be prepared to talk about what the money will be and over what period of time when I get that resolved within the Administration.

Chairman GLENN. Okay. But what you have proposed, as I understand it then, is that 50 percent of this be in the form of agencies absorbing the cost of pay reform and 50 percent will be new money; is that right?

Ms. NEWMAN. Yes. There is $1 billion in new money in the 1991 budget for the agencies. It is expected that the 3.5 percent increase plus the other provisions would be about $2 billion, and there is one billion in new money in the budget, if that is the question, for 1991.

Chairman GLENN. Is there that excess money? Do you feel that all the agencies have that much excess money that they can absorb this without interfering with other activities?

Ms. NEWMAN. Well, Mr. Chairman, the last budget round they were to absorb 75 percent, and we were at least trying to relieve them from absorbing as much as they did in the past.

Chairman GLENN. Well, I guess the natural follow-on question would be if they have that excess money around, isn't that money we should be cutting out because they don't need it for other things?

Ms. NEWMAN. No. It is not excess, it is a matter of their establishing priorities. The agencies have indicated that this is a serious priority, and it means that in this era of budget crunch they will have to reestablish their priorities and move the money around for pay for their employees.

Chairman **GLENN**. I don't see how we ask the agencies just to absorb $2.5 billion out there. If they have that excess to $2.5 billion, it has to come out of somewhere, there are some functions going to stop or that is excess money now, one or the other.

Ms. **NEWMAN**. One billion. We are asking them to absorb $1 billion, 50 percent.

Chairman **GLENN**. Maybe I misunderstood then. I thought you said the one billion was asked for in the new budget and that the rest of it would be absorbed by the agencies, which would be the $2.5 billion.

Ms. **NEWMAN**. The total cost would be $2 billion, and 50 percent of it would be absorbed by the agency.

Chairman **GLENN**. I see. I misunderstood that. What was the 3½ figure then, or 3 point something?

Ms. **NEWMAN**. The $328 million is the amount of the 8 percent differentials, the 5-percent increase for the entry level, and the recruitment and retention bonuses, and they would absorb that.

Chairman **GLENN**. For some 13 years in a row Presidents of both parties have used the alternative pay plan authority to restrain pay increases. That is what has led us into the gap we have today. Can we expect to have true pay reform without eliminating that authority?

Ms. **NEWMAN**. Our proposal contemplates a transition period where the present mechanism would still be in place. However, we do plan, as was indicated in the 1991 budget, an increase of 3.5 percent in 1991, 4.0 percent in 1992, 3.7 percent in 1993, 3.4 percent in 1994, and 3.1 percent in 1995. So that there is a commitment on the part of the Administration for increases that were shown in the 1991 budget.

Ms. **NEWMAN**. Our mechanism that we are talking about, Mr. Chairman, would not be the alternative plan per se, but it would provide for the Administration to be able to manage its resources and not have to be concerned about uncontrolled costs. So there is a balancing of a mechanism that recognizes the gap and recognizes the need for us to be competitive, but at the same time not completely removed from the fiscal concerns of the Administration, with a mechanism for determining affordability and the extent to which there really is a problem in our pay levels being competitive.

Chairman **GLENN**. Let me get back to this absorbing the cost again just for a moment here. Why do we believe that they have the ability to just absorb half of the cost of this? Why aren't we providing pay increase money?

Ms. **NEWMAN**. Mr. Chairman, we are in the process of balancing what we believe we need to do in order to address the needs of recruiting and retaining the best and the brightest on the one hand, and on the other hand the pressures that the Administration and, I think, the Government in general feels in not increasing the deficit. And the debates that go on and that went on when we were putting together the 1991 budget were just that, how much can we afford to do, recognizing we have a problem, and you can imagine how the debate must go.

Chairman GLENN. Every time we have one of these proposals where we will just let an agency absorb so and so, they can take it, I am sure they can adjust their accounts some way, it makes me a little nervous. Because it means to me that we haven't done the right job of appropriating over here or we would do closer accounting than a billion here or a billion there that can just be absorbed for whatever purposes. We run into this all the time with the Defense Department. Senator Levin has looked into some of these areas over there on our accounting systems and so on, and they are atrocious.

I just don't see how we try and correct something like the pay inequities that we have talked about so long and we just say, well, but they can take a good chunk of this, half of it, out of hide, without at the same time saying, well, there is either some function of Government that we think is essential that is not going to get done now, or we gave them too much money to begin with to do what they were supposed to do. Isn't that logical?

Ms. NEWMAN. My agreeing with the Administration on the proposal was based on my strong belief that we needed to do something, and that the resources available would be $1 billion. I felt that one billion was not as much as we need, but in the past the agencies have absorbed even up to 100 percent, and this was better than it had been before.

Chairman GLENN. Well, I know the rock and a hard place that you are up against over there trying to work with the budget people, but I really don't believe we are going to solve our pay problem by telling people to take it out of hide. That doesn't send a very good message to civil service across the country, I don't think.

We are going to have to break for a minute here. We are on a short fuse on a vote up here, and so we will break while we go vote and be right back.

Senator LEVIN. Mr. Chairman, can I just put a statement in the record?

Chairman GLENN. Yes.

[The opening statement of Senator Levin follows:]

OPENING STATEMENT OF SENATOR LEVIN

I am pleased that we are here today to review options to reform our Nation's federal pay system. I would like to thank Chairman Glenn for calling these hearings. The measure introduced by Senator Glenn and his colleague, Senator Lautenberg addresses a worthwhile issue and merits the debate and comment of this Committee.

In recent years, a great deal of attention has been focused on the issue of pay raises for Members of Congress and those in the upper executive levels of government. Relatively little time has been spent or attention focused on the compensation of those who do the frontline day-to-day work of the Federal Government—those individuals who are charged with making sure the wheels of government keep turning and who are charged, many times, with establishing personal contacts with those who are served by the federal government.

It is imperative that we have quality individuals serving in those capacities. They are the face of this government to most of our citizens. If they are not effective and responsive the people are not well-served.

This hearing provides an excellent opportunity to review ways in which we can structure the federal pay system to equitably compensate those many federal employees who are serving this country well and to attract qualified individuals to the public service.

Senator **Levin**. And I have one request of Ms. Newman, and that is that she give us for the record the number of special rate authorizations that have been denied. We have the figure that have been granted, but we don't have the number that have been denied.

Ms. **Newman**. I will do that.

Senator **Levin**. Thank you.

[The information supplied by Ms. Newman follows:]

SPECIAL RATE CASES (TITLE 5)

Fiscal year	Approved	Disapproved
1985	19	3
1986	19	9
1987	39	6
1988	94	5
1989	92	11
*1990	110	6

* Through June 1, 1990.

Senator **Roth** [presiding]. Ms. Newman, I will proceed with questions until the Chairman returns, so let me personally welcome you here. Like the Chairman, I am looking forward to the Administration proposal, because I do think the question of reforming pay is of critical importance.

Let me ask you one question. It is my understanding that on March 1 and 2 the Federal Government conducted six job fairs in major cities around the country, including Washington, that more than 110,000 individuals attended these events, and it is estimated that more than 6,000 applicants were offered jobs on the spot.

Does this mean our recruitment problems are not as big as we have believed, or to what do you attribute the success of these fairs? Is OPM planning to conduct more such fairs?

Ms. **Newman**. Let me first share with you what I think is the rationale for our requesting consideration of pay reform even though there may be an appearance of a certain amount of success in job fairs. We are interested in a pay reform proposal that is tailored to deal with specific problems, specific problems based on geographic areas or specific problems dealing with certain types of occupations. We are tailoring our proposal even to deal with individuals.

One of the arguments for the proposal that we will be submitting is that we would not suggest that the Government raise the wages across the board when it is not necessary. That is one observation I would like to make.

The other is that yes, there were hundreds of thousands of people, but they were not necessarily people who can be matched up with the hard-to-fill jobs. There are certain types of jobs the Government has difficulty filling because we are nowhere near competitive. We were very pleased with the numbers, but I think when we go back to some of the agencies who were there with vacancies that they have had over a long period of time, we would find that maybe they still did not get candidates for those vacancies. And we can share that information with you.

The other two points I would make are, I don't know whether any people in those lines asked to go to New York City. I mean, that is the other problem. We have a great deal of difficulty in New York, San Francisco, and Los Angeles. I don't think that the fact that people were willing to work in some areas that we talked about means that we still don't have a very serious problem in the very high-cost areas. We do have high turnover in specific geographic areas. The nationwide percentage does not tell the whole story, because if we took certain occupations and certain geographic areas, we are having a serious turnover problem. Yes, we will continue to have job fairs, our job is to try to help the agencies fill their positions. But it is extremely important for us at this time to reform the pay system to one that is more market sensitive and allows us to target our limited resources where we need them.

Senator ROTH. Well, let me say I have a great deal of sympathy for what you are seeking to do. I was interested in the seeming success in those fairs, although having said that, it is my personal observation that one does not find the interest in joining Government for many of those graduating from college that one did when I graduated from college. And I think that is a matter of great concern as to why we do not have the same interest.

Ms. NEWMAN. May I say something about that?

Senator ROTH. Please.

Ms. NEWMAN. One of the recommendations that we have actually put into the 1991 budget is a 5-percent increase for the entry level, and that is because we are so far off on the entry level jobs. Back in 1972 there may have been a 2-percent difference between the Government and the private sector for an entry level college graduate. Now we in many areas are off maybe 42 percent. Now, it is true that once people are in the Government, their movement upward is much faster than in the private sector, but we can't get them in. And we view that as one of the most serious problems that needs to be addressed right away.

Senator ROTH. Should we, at the same time we are looking at basic pay rates, also be looking at fringe benefits, or does that just complicate the whole matter too much?

Ms. NEWMAN. I think if we had had our druthers, we would have looked at all compensation. We do have the broad outlines of our proposal on reforming the health benefits system, but we felt that the pay problem is so serious that we can't wait until we figure out how to put together the whole compensation package. If we deal with pay now, and fairly soon with health benefits, that then we will have to look at addressing leave and some of the other benefits at a later time.

Senator ROTH. Are you going to be looking at the question of flexibility? Because, as we all know, as workers, depending on their age and personal circumstances, the kind of benefits that do the most benefit do change.

Ms. NEWMAN. Our broad proposal on health benefits recommends a distinction be made between the health plans offered employees and those offered annuitants. But if you are talking about a plan that allows child care or elder care, we have not gone that far. And we are not really prepared yet to do that, because costing that out and looking at the fairness of how we put a package together for everybody would require a great deal of work, and frankly, we have been spending our time looking at reforming the pay system and the health benefits system.

Senator ROTH. Well, I think I agree with your priorities. At the same time, I do think that flexibility is going to be the wave of the future.

Let me ask you this question, because before I left the Chairman was asking some questions about how to pay for it. And in these days of deficits that is, of course, a serious problem.

Obviously, if we are going to increase Federal pay, that is going to have an impact on the Federal budget, and it is my belief that this is where my early retirement proposal could play a very constructive role. I don't know how familiar you are, Ms. Newman, with this, but under the proposal it has been estimated that several billion dollars could be saved over the next 5 years and, of course, it could be used as a mechanism to help fund some of the pay raises that are necessary to improve recruitment and retention.

If we increase productivity we can afford to pay better. Now, just let me mention that in 1981 we had, according to these figures, 2,772,000 wage and salary workers. In 1989 we have 2,988,000, so it is roughly 200,000 additional personnel. Now, I can tell you that my "early out" proposal is very, very popular with the Federal employees, because what it does, it gives them the opportunity at their option to withdraw under favorable circumstances.

So I would ask you to comment on this proposal, and I would urge you to look at it and see if we don't have an opportunity here to let those that want to leave, leave under beneficial circumstances, and at the same time make it practical to pay better and to help us attract and retain people.

Ms. NEWMAN. Senator, I am aware of your proposal and also of some revisions in the proposal from the original one, which addressed some of the concerns that the specialists had within the agency. I think that at this stage we would like to revisit it with you. I will say that one overall concern is that it is true that this may provide some relief to the system, but we want to also build into any proposal an assurance that the agencies will not be losing the very hard to fill technical people that are important to the running of the Government. What I am suggesting is that this is a time for us to revisit your proposal, recognizing that we want to do it in a way in which we are freeing up dollars, but at the same time not putting us in a more difficult position and losing some of the very best people that we need to keep.

Senator ROTH. Well, we would be happy to work with you, and I can understand and appreciate your concern. I think that is entirely doable. My legislation was borrowed from the private sector. As these companies had to slim down to become more competitive, obviously, they, like Government, wanted to keep many of their best people, and they were able to do so. But it does seem to me that there is a real opportunity here because of our new means of communications, computers, and all the modern technological means that should enable us to shrink our work force in a compassionate way, but by doing so in such a manner that it will make Government more efficient and effective, and most important of all, make it a better place for the Federal employees to work.

So I would appreciate working with you. I would point out that under our current proposal that the employees may exempt up to 25 percent of an agency's eligible early retirees. They may be designated by categories. But this is something we would be happy to sit down and work with you.

Ms. NEWMAN. I look forward to doing that.

Senator ROTH. Mr. Chairman, in your absence I proceeded with my questions.

Chairman GLENN. That's fine. Go right ahead.

Senator ROTH. The Federal Government is currently conducting several pay-for-performance demonstration projects authorized under current law, such as China Lake and San Diego Naval Yard.

Do you believe these demonstration projects should be used to expand the pay-for-performance concept in a comprehensive pay reform proposal?

Ms. NEWMAN. Senator, our proposal will expand pay-for-performance, not limited to the findings in those demonstrations, but based on studies that have been conducted by us, by the Hay Group, by Sibson, by a number of surveys that have been conducted, showing the extent to which the private sector has determined this is the way to move to ensure greater productivity. In answer to your question, yes, we will turn to those studies, but we will go beyond that. We now have a panel at the National Academy of Sciences looking at pay-for-performance strategies, and we would be using that as one of the sources of information on moving to pay-for-performance.

We are planning, however, that in building a pay-for-performance system, we would build one that provides flexibility so that agencies can design a system based on their own needs and on the culture of the agency. When I say that we will be giving information from our studies, a great deal of that will be guidance rather than regulation.

Senator ROTH. One final question, the Department of Defense, of course, is under going a hiring freeze, and it is, of course, likely that the Department will be getting less and less resources. I wonder what planning is being done to ensure the civil servants at the Department of Defense will be offered opportunities to work in other agencies?

Ms. NEWMAN. Senator, I have been working along with people within the Office of Personnel Management with representatives of the Department of Defense on a number of projects which not only will look toward helping civilians but also the military, and we see ways of maybe filling some of our difficult-to-fill jobs in civilian agencies with people with expertise from the Department of Defense. So we are trying to build into projects the use of automated information on the vacancies and on the expertise that will be available from the Department of Defense, and we are setting up some very detailed projects along these lines.

Senator ROTH. Thank you, Ms. Newman, it is always nice to have you.

Thank you, Mr. Chairman.

Chairman GLENN. Thank you, Senator Roth.

Ms. Newman, Federal employees have been paid under the General Schedule for the past 40 years, but as I understand it, the Administration is proposing that that be eliminated. Except for local pay differences, is there anything inherently wrong with using the general schedule that would warrant replacing it?

Ms. **Newman**. I am going to let Ms. Cooley also answer this, but based on the Wyatt Company and other studies that we have been using to guide us, there has been an indication that the private sector has determined that you are much more competitive if you make a distinction between people who are recruited on a nationwide basis and on a locality basis. And it would allow us a greater control over the way in which we allocate the resources.

But why don't I ask Ms. Cooley if she has a comment.

Ms. **Cooley**. Essentially, the General Schedule system now, because it pays everyone the same amount for their base salary regardless of where they are located or their occupation, means that we are overpaying significantly in some cases and we are underpaying severely in others. What we are trying to do here is make a basic split, recognizing that, overall, for professional and administrative jobs we are normally recruiting from a national labor market rather than a local labor market, but for clerical and technical jobs, we are primarily recruiting from a local market. That is the way that most of the private sector firms that have large and geographically dispersed work forces handle their pay systems. They have one system that covers jobs that they recruit for locally and another system that they use for jobs where they recruit nationally.

If we set pay for the professional and administrative jobs purely on a locality basis, we think we may find some problems when we want to have employees move from one geographic area to another. The mobility requirements are usually associated with jobs in the professional and administrative area rather than in the clerical and technical. We are concerned that if we have multiple pay schedules for professionals and administrative people that are not only recruited nationally but may have to be assigned at different places in the Nation, we may find it very difficult to move people from one place to another.

We think it is important to make this basic distinction, not fracturing it into lots of different pieces but using a locality approach for the clerical and technical and a national approach for the professional and administrative types, while recognizing within that basic split that you may have to make some accommodations to the exceptionally high-cost areas for the professionals.

Chairman **Glenn**. But it is my understanding that a salary variation study was done by your staff that found that the data does not clearly support a national market for any category of employees. The study found variances between the highest paying areas and the lowest were as great as 92 percent for professional occupations and 83 percent for administrative employees. Similar variations were found for clerical and technical employees.

Is that accurate, and doesn't that tend to support a need for locality pay for all general schedule occupations?

Ms. **Cooley**. Well, indeed the study shows that there is variation for all occupational groups, but when we look at this by area we see that there are always exceptions, but as a general rule, the variation is definitely greater for the clerical and technical than it is for the professional and administrative. The Administration's approach would indeed have the flexibilities within it to accommodate those occupations and those places where we do need to deviate from the basic schedule. But we would do that in a way where it would be a differential and where if people moved from one place to another they wouldn't necessarily take that with them.

Chairman GLENN. And it would be flexible enough that you could accommodate 92 percent variations, and 83 for administrative employees? You would have that kind of flexibility?

Ms. COOLEY. No, I think we need to be careful in the sense that when you are looking at this from the statistics, you do not concentrate on the extreme situations. When you look at the central tendency, in other words, where most of the salaries that are paid for those occupations by most companies for professionals are, the central tendency is closer than it is for clerical and technical workers. I don't want to get too statistically wrapped up here, but if I could give one example, we took a look at 5 metropolitan areas, both low-cost and high-cost, across the country where we have significant Federal employment populations, and we looked at the degree of variation in those places, how far off they were from the market. We found variations in those cities for clerical and technical, as well as professional jobs. But in the clerical jobs we found a 37 percent variation, while for the professional and administrative jobs, we found significant variation but only about 10 percent from the low-cost to the high-cost areas.

We recognize we have problems across the board in that pay does vary, but we believe that the variation is more significant as a general rule for clerical and technical and that we don't have the mobility issue with the clerical and technical that we have with the professional and the administrative.

Chairman GLENN. If we go with the OPM plan, do you intend as part of dropping of the general schedule to put an end to automatic in-grade longevity raises?

Ms. NEWMAN. Yes. Our recommendation is that there would be pay-for-performance, if that is the question, and——

Chairman GLENN. Well, we have had automatic in-grade longevity raises that have been part of the general schedule. Now you would do away with that, as I understand it?

Ms. NEWMAN. For the national schedule all increases would be based on a showing that an individual was fully successful.

Chairman GLENN. Are you saying then—I want to make this very clear—you are saying then that the future system you are proposing, the raises would be strictly merit raises and nothing else?

Ms. NEWMAN. Merit raises. That is on the national. Then let me talk about the local. On the local schedule, general schedule shifts would be based on merit. The percentage increases over and above that up to the mid point would be based on longevity, and anything above that would then be based on merit. So what we are saying is that some of the increases at the local schedule would be based on longevity, but the balance of it would be based on merit. So we are talking about moving by and large to a merit system.

Chairman GLENN. But with some longevity raises where?

Ms. NEWMAN. On the local level for the clerical, technical and some administrative.

Chairman GLENN. That would be up to local administrators then?

Ms. NEWMAN. Well, the system would be in place. They wouldn't be able to decide whether or not they would do that or not, that would be part of the law.

Ms. COOLEY. Senator, on that clerical and technical schedule, the idea there would be that there would be automatic increases based on time in the grade up to the point——

Chairman GLENN. Longevity.

Ms. COOLEY. Yes—up to the middle point of the salary range which represents the rate that you need to pay to be comparable with the nonfederal sector. The idea is that until you get to the point where you are equal to the market, if you will, the rate being paid by nonfederal workers, you are guaranteed progression to get up to that rate. But at any time, though, that you would be paid more than what that market rate is, that would be based on performance. So that is why it would be automatic up to the mid point of the range and then linked to being an outstanding performer past that.

Chairman GLENN. Would this in effect cut out the top steps then within grade? Is that basically what it would do?

Ms. COOLEY. Yes, it would.

Chairman GLENN. So instead of getting them over a wide period here, you would only get them for the first part period and the upper steps just wouldn't be there any more. It would be merit or nothing?

Ms. COOLEY. Well, you would certainly have salary progression beyond that point, but that progression would be linked to performance rather than just how many years you were in that job.

Chairman GLENN. My time is up. Senator Roth.

Senator ROTH. No more questions.

Chairman GLENN. Okay. A couple more here. The National Institute of Standards and Technology, NIST, has the authority to pay retention bonuses under its pay demonstration project, but officials tell us they have used the authority in only a few cases because their concern is that a large number of employees would in effect blackmail them by threatening to leave.

Do you see this as a problem, and how would you avoid such problems with your proposal, and which employees would be targeted as candidates for retention bonuses?

Ms. NEWMAN. I think, Mr. Chairman, that we would have to have some confidence that the management of the agencies would know who they are dealing with and how to do it. The FBI uses retention bonuses in New York and we have not heard that there is a problem there. As a matter of fact, from all our early reports the retention bonuses are turning out to be very successful.

I hadn't heard about the blackmail issue; I have got to look into that.

Chairman GLENN. Maybe we could have staff talk to you about that a little bit later.

Ms. NEWMAN. Okay.

Chairman **Glenn**. Maybe we can put you in contact with some of the blackmailees, whatever it is.

Ms. **Cooley**. Those bonuses, of course, would be available for agencies to use when they thought they could be used well and effectively, but they would not be required to be used. But we don't anticipate that Federal employees as a rule would behave like that.

Chairman **Glenn**. Just one other thing I would bring up for your consideration here. I get a little bit concerned when you talk about these things fitting the centrist pattern here of averages and so on and we are not quite sure how this would work out here in the fringes. We are trying to set up something that is going to be fair and workable for everybody. And you can prove anything by averages, but you are trying to set up a system that is flexible enough—and that is what we are trying to do, I'm sure you are too—that is flexible enough so that wherever a person is in civil service in this country, whether it is in Montana or Florida or wherever, they are dealt with fairly in competition with whoever they are in competition with.

Maybe I implied too much in your statement a little while ago, and I don't want to be overly critical, but I want to make sure that we are just not setting up a system that is for the centrist majority on a national average of some kind. We want it flexible enough it will deal fairly with people all over the place, and that is of real concern. But that is what we are driving toward.

Ms. **Newman**. Mr. Chairman, that is what we think we are doing too.

Chairman **Glenn**. Good. Well, we will look forward to getting your proposal. You said, what was the time? Within a week, was that it?

Ms. **Newman**. Soon. [Laughter.]

No, I said I think it would be next week.

Chairman **Glenn**. No, you didn't say "soon," you said "very soon," and there is a difference.

Well, we have worked closely on these things in the past. We have been disappointed that we didn't have the Administration proposal—as you are aware of from our conversations in the past—that we didn't have it ready to go when this year started. Because we had looked forward to making that one of our first items on the agenda this year. And so we have gone ahead with this. We look forward to getting your proposal, and then we will see where we go from there.

Ms. **Newman**. Thank you.

Chairman **Glenn**. Thank you very much for being here. There may be other questions other members may have that we would appreciate your response to for the record.

Our next witness is Mr. Richard L. Fogel, Assistant Comptroller General, GAO, General Accounting Office.

Welcome, Mr. Fogel. I might add that 2 years ago Mr. Fogel was instrumental in establishing in his division a Workforce of the Future group which has been studying pay reform, and my bill draws heavily on the work of this group and I appreciate the assistance that you and your staff have provided us and look forward to your testimony today.

TESTIMONY OF RICHARD L. FOGEL, ASSISTANT COMPTROLLER GENERAL, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY ROSSLYN KLEEMAN, ROBERT SHELTON, AND CURTIS COPELAND

Mr. FOGEL. Thank you very much, Mr. Chairman. I would like to introduce part of that group. Roz Kleeman is head of the group. Bob Shelton is an assistant director in the group, and Curtis Copeland is the key person who has been working full time on these pay issues.

Chairman GLENN. Good.

Mr. FOGEL. I would like to ask that my full statement be submitted for the record.[1]

Chairman GLENN. Without objection it will be included in its entirety.

Mr. FOGEL. Thank you, and I will highlight it today.

Our work that we have been doing over the years and continue to do points to one basic conclusion, the Federal Government must recognize that its pay disparities with the nonfederal sector can no longer be tolerated. Federal recruitment and retention difficulties are real. The Government must be able to compete for and hire quality employees if it is to effectively deliver services to the American people.

One factor that has caused the pay comparability principle not to accomplish its objective was its assumption, implicit in the use of national averages, that nonfederal rates are similar in the different parts of the country where Federal employees work. While limited information is now publicly available on how Federal rates for particular jobs in specific locations compare to nonfederal rates in the same localities, we are finding that substantial variances exist. A national average often has little relevance to nonfederal rates in a specific locality. For example, the National Commission on Law Enforcement showed that state and local government salaries for law enforcement personnel clearly varied by region, with the lowest salaries reported in the South, the Southwest, and rural areas of the Midwest. The highest salaries were in California, New York, Washington State, New Jersey, and Massachusetts.

Our analysis of certain occupations, primarily in the technical and clerical job categories in about 60 large metropolitan areas of the country, has shown that the private sector paid more than the Federal Government about 90 percent of the time. In over 80 percent of the comparisons the private sector advantage was at least 10 percent. Among the areas in our analysis where Federal pay was most behind the private sector rates were Detroit, San Francisco, Los Angeles, Newark, Boston, and New York.

The comparability principle also does not consider the wide variance in the cost of living in different parts of the country. When two Federal employees in different locations are paid the same salary, their purchasing power can be quite different depending on the cost of living in their locations. Among the 59 metropolitan areas with at least 5,000 Federal white-collar employees, living costs vary more than 65 percent, and housing costs differ widely by area and are the primary determinant of the living cost variances.

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[1] See p. 96.

Chairman Glenn. Do you have a list of those as part of your testimony?

Mr. Fogel. Yes, we would be glad to submit that for the record.

[The information referred to follows:]

The government does not compile cost-of-living data by locality. The Bureau of Labor Statistics stopped collecting such data in 1981. Therefore, we contracted with Runzheimer International, a management consulting firm that specializes in compiling cost-of-living information. Runzheimer data are used by over 300 of the Fortune 500 companies and by the General Services Administration in its determination of federal travel allowances.

Runzheimer's calculations of costs of living include housing, taxes, transportation, goods and services, and other expenses. The company provides separate measures of living costs for different employee profiles based on income, family size, and whether employees own or rent their homes. For homeowners, Runzheimer determines living costs for persons who are currently buying a house as well as those who bought houses 3 and 6 years earlier. Runzheimer calculates living costs for each employee profile in a "standard" city (a median cost city) and uses the standard city costs to construct cost-of-living indexes that allow comparisons of living costs from one city to another.

We obtained the following comparative cost-of-living data as of April 1989 from Runzheimer for each of the 59 metropolitan statistical areas (MSAs) that had at least 5,000 federal white-collar employees. We specified a profile of an "average" federal employee—a homeowner, family of four, earning $30,000 a year.

COST OF LIVING INDEXES FOR MSA's WITH 5,000 OR MORE WHITE-COLOR EMPLOYEES

	New owner	3-year owner	6-year owner
New York	1.47	1.32	1.24
Nassau-Suffolk	1.41	1.26	1.12
San Francisco	1.33	1.20	1.18
Boston	1.33	1.16	1.10
Los Angeles	1.31	1.20	1.18
Newark	1.30	1.18	1.10
San Jose	1.28	1.14	1.12
Oakland	1.25	1.14	1.12
Oxnard-Ventura	1.24	1.15	1.12
Monmouth-Ocean	1.24	1.14	1.09
Honolulu	1.22	1.20	1.19
San Diego	1.18	1.14	1.14
Washington, DC	1.14	1.09	1.09
Chicago	1.14	1.09	1.08
Philadelphia	1.14	1.09	1.08
Riverside	1.10	1.06	1.06
Vallejo	1.10	1.04	1.02
Baltimore	1.09	1.08	1.07
Sacramento	1.09	1.06	1.05
Minneapolis-St. Paul	1.06	1.06	1.06
Detroit	1.06	1.04	1.04
Miami	1.03	1.02	1.03
Pittsburgh	1.03	1.02	1.02
Atlanta	1.03	1.02	1.01
Anchorage	1.02	1.06	1.08
Seattle	1.02	1.00	1.02
Fresno	1.02	1.00	.99
Salt Lake City	1.01	1.02	1.03
Cleveland	1.01	1.02	1.02
Portland (OR)	1.00	1.02	1.04
Richmond	1.00	1.01	1.00
Norfolk	1.00	1.01	1.00
St. Louis	1.00	1.00	1.00
Tampa	.99	.97	.97

COST OF LIVING INDEXES FOR MSA's WITH 5,000 OR MORE WHITE-COLOR EMPLOYEES—Continued

	New owner	3-year owner	6-year owner
Kansas City	.98	1.00	1.00
Columbus	.98	.98	.98
Albuquerque	.98	.98	.97
Phoenix	.98	.98	.97
Harrisburg	.98	.97	.96
Dallas	.97	1.00	1.00
Charleston (SC)	.97	.99	.99
Denver	.97	.99	.099
Austin	.96	1.01	.98
Cincinnati	.96	.97	.97
Indianapolis	.96	.96	.97
Jacksonville	.96	.95	.95
Fort Worth	.95	.99	.96
Bremerton	.94	.95	.94
Dayton	.93	.95	96
Pensacola	.93	.95	.95
Huntsville	.93	.92	.91
Oklahoma City	.92	.97	1.00
New Orleans	.92	.97	.99
Davenport-Rock Island	.92	.95	.95
Macon	.92	.94	.94
Memphis	.92	.93	.93
Houston	.91	.95	.99
El Paso	.91	.94	.95
San Antonio	.89	.94	.95

As is evident, there are wide variations in the total annual cost of livng across the MSAs. For the profiled employee buying a house in April 1989, the most expensive MSA was New York, which was 47 percent more expensive than standard city. The next most expensive MSA was Nassau-Suffolk at 41 percent above standard city and then San Francisco and Boston, each 33 percent more expensive than standard city. The least expensive MSAs were San Antonio (11 percent below standard city) and El Paso and Houston (each 9 percent below standard city). Thus, for the average new homeowner employee, the cost of living difference from the highest to the lowest-cost MSA was about 65 percent.

For employees who bought their homes 3 and 6 years earlier, the differences in living costs were less substantial but still significant. For 3-year homeowners, New York was still the most expensive of the 59 MSAs (32 percent above standard city), while Huntsville, Alabama was least expensive (8 percent below standard city). Thus, the difference in cost of living from high to low MSA for this group was about 43 percent, or 22 percentage points less than for employees who bought homes in April 1989. For 6-year homeowners, the highest to lowest (new York-Huntsville) cost of living differential was about 36 percent. New York was 24 percent above standard city and Huntsville was 9 percent below standard city.

Chairman GLENN. We would like to have it. That is a rather amazing statistic. Say that again, the variation was——

Mr. FOGEL. Living costs vary by more than 65 percent among the 59 metropolitan areas with at least 5,000 Federal white-collar employees.

Chairman GLENN. What is the highest? Do you remember the highest and lowest?

Mr. FOGEL. Well, in determining living costs, what we primarily did was use a housing factor, and depending on the indexes—we have looked at most cities—if you just use cost of living, factoring in housing, the highest is New York City and the lowest is San Antonio.

Chairman GLENN. But that is just housing?

Mr. FOGEL. That is primarily housing. It includes other costs of living, but housing is the main primary determinant of the variance in cost of living.

Chairman GLENN. Do you have anything that sets up a formula that is a generally accepted overall cost of living that includes housing, food, transportation, gasoline costs, the whole bit?

Mr. FOGEL. This does. What I am trying to say here is the index includes everything, but it is housing costs that primarily varies most significantly among cities. And in fact, the Report of the National Advisory Commission on Law Enforcement to get into this issue in a fair amount of detail. And that is why we have basically concluded that it is very important in dealing with locality pay that you factor in, in addition to the comparable salary cost for the nonfederal employees in an area—which would include, as you bill does, both private and states and local employees—to consider some type of cost of living because there is so much variation. But I will be glad to explain that in more detail if you would like later.

Chairman GLENN. All right.

Mr. FOGEL. The areas with the highest nonfederal salary levels usually have the highest cost of living. However, there are some exceptions. For example, salary rates are quite high in Houston, but Houston's cost of living is below the national average. Conversely, San Diego has relatively average salary rates, but its cost of living ranks 10th among the 59 areas. So that is the problem, as you were saying to Ms. Newman. If you just deal with averages you get some variations there that may be difficult to live with.

But what we think this data shows is, while it is appropriate to consider a national salary structure for white-collar employees, we are convinced that locality pay adjustments are needed because of the significant differences in nonfederal salary rates and cost of living by locality.

We are finding in our own work, as Ms. Newman said too, that the greatest reason employees quit Federal jobs is low salaries. The pay disparities are occurring in virtually all locations, but the recruitment and retention problems are most pronounced in areas where nonfederal salary rates and cost of living are the highest, and in the areas where other employment opportunities are readily available.

As part of our work on Federal pay and other employment programs, we are surveying the practices followed by large companies that, like the Government, have employees in numerous locations. We sent questionnaires to all 148 companies in the United States that our data source indicated had at least 25,000 employees each and had employees in at least 10 locations. The work is still ongoing, but to date we have received usable responses from 62 companies that met our criteria. Without exception, the 62 companies said that their objective is to have pay rates no lower than the 50th percentile of rates paid by other employers, thereby indicating that maintaining competitive salary levels is a very important aspect of the compensation philosophy of the Nation's leading private companies.

Some of the companies said their objective is to pay above the 50th percentile. Since the Government's pay rates are around the

40th percentile of national average salaries, these findings are further evidence that the Government is not a competitive employer.

We also asked the companies whether they paid different rates by locality. The 62 respondents have indicated a wide variety of practices, and the responses to date do not show any predominant pattern in the private sector on locality pay practices for white-collar employees. It is evident, however, that companies give a great deal of thought to how they set salary levels to meet their own needs, and that there is often considerable variation in pay practices by localities.

Given all this, we believe that our work suggests that the following basic principles should be followed in determining Federal salary amounts. Federal salaries must be competitive by locality to attract and retain high quality employees. In determining prevailing salaries in a locality, rates paid by state and local governments as well as the private companies should be taken into account. The restoration of Federal pay to competitive amounts, however, must be done in a fiscally responsible manner, and action should be taken to avoid any further widening of the national pay gap.

S. 2274 is generally consistent with the above principles and we generally support it. We agree with the bill's incremental approach to resolving the Government's salary problems. However, we would point out that the pay relatives the bill uses to determine locality adjustments measure local non-Federal pay rates against national average nonfederal pay rates. They do not compare local Federal and nonfederal salaries. Accordingly, these pay relatives will not show the extent to which salaries are behind, or perhaps ahead of, prevailing non-Federal rates in any locality. However, they do afford a means by which an initial step may be taken to provide some relief in those localities where the pay disparities are the most severe.

We think it would be appropriate over the long term to directly compare Federal and non-Federal salaries in each locality. And as I mentioned, we believe some cost-of-living differences among localities should be considered along with the salary comparisons in determining locality adjustments. Since the primary objective of the bill is to make Federal pay rates more competitive, not necessarily comparable with nonfederal rates, including cost-of-living considerations in deriving locality pay adjustments would, we believe, better accomplish that objective.

As mentioned previously, nonfederal rates do not always mirror cost of living differences by locality, and by adding cost of living differences to the salary comparisons, Federal rates can be equalized in terms of spending power. Any adjustments, however, should not result in Federal salary rates exceeding the non-Federal rates in any area.

If our suggestions are adopted, a decision could then be made on how much of the pay disparities by locality could be corrected in the short run as opposed to over time. One possible approach is to fill some percentage—maybe half—of the pay disparities. As the bill provides, a reading could be taken later of the budget situation and a plan developed for correcting any remaining disparities. A further alternative is to begin to reduce the disparities immediately only in cities with the greatest differences between Federal and nonfederal rates. Also, though it may take some time to reduce the disparities for all levels of the Federal work force, it is critical that the disparity at the entry level be dealt with quickly to better ensure the Government's competitiveness.

Now, the notion of affordability also has another aspect. We do not believe agencies across the board should be expected to absorb all or large parts of the pay increases within their existing budgets. If we are really serious about pay reform and making the Federal Government's pay more competitive, we must be willing to pay for it. The agencies can't continue to pay for all these out of existing funding levels.

The final point I would like to make is that we very strongly support the call in your bill for a study of the feasibility of linking pay adjustment amounts and individual employee performance. According to the questionnaires we have received thus far from private companies, very few companies grant automatic pay increases to all employees when salary schedules are adjusted. They generally report that job performance is the primary criterion used in determining the amount of increase received by individuals. So we believe this concept has merit and should be explored, and we would be pleased to respond to your questions.

Chairman GLENN. Thank you very much, Mr. Fogel. I would like to clarify your suggestion about considering cost of living in an area when setting the pay rate. Suppose you are in an area where living costs are below average and other employers are paying clerical employees $10 an hour. Would you propose that the Government pay a lower rate, say $9 an hour? It wouldn't make up that difference? How does that keep us competitive? If we are going to pay below the going rate, how are we going to be competitive?

Mr. FOGEL. I think there are a lot of different ways you can develop the formula. Our view is that the Government has to be more competitive. In our mind that doesn't mean exactly comparable. We don't necessarily think in all cases that Federal salaries have to equal one for one the private sector or other state and local salaries. But, in general, your assessment of our position is correct, and in some cases it may mean that the Federal employees' rate wouldn't be totally up to the non-Federal rate. However, one of the things that is in your bill that we think can help deal with this situation is that if there is still too much of a difference, after you develop the formulas, between what the Federal employee would get and what the non-Federal employee would get, you could still use a special rate to make up that difference.

Chairman GLENN. Wouldn't it be advisable maybe to have as an objective paying a little more than comparable? Because that way you not only can really insist on merit, but you get the best people to begin with, better people than you otherwise get. Does that follow?

Mr. FOGEL. I think that idea has a lot of merit as a person who has to do a lot of recruiting for GAO. I would love it if we could offer more. I think that realistically though what we need to try to do is fill as much of the gap as we can. I don't think there are many occupations now where we find that the Government is paying more than the non-Federal sectors. The objective needs to be to make sure that we are competitive. What we want to be able to do is to make sure that the Government can attract and retain and develop quality employees. And our initial concern is to make sure we are more competitive than we are now.

Chairman **GLENN**. Well, we have a $1.2 trillion operation going here and then we try and get by with the least pay we possibly can for people and don't even keep them comparable. I would like to see us really going for the best and the brightest to get into Government, and I guess you have to pay for that if you are going to do it, and I guess in the current climate that wouldn't work.

Mr. **FOGEL**. Well, we think we ought to be willing to spend probably considerably more than an extra billion dollars over time to improve our ability to get better people.

Chairman **GLENN**. You have proposed that Congress consider tying pay adjustments to employee performance, which is similar to what is currently the case under the PMRS, Performance Management and Recognition System. Can you tell us from your past work how PMRS is working and whether it has been shown to motivate employees to do their jobs better?

Mr. **FOGEL**. I would like to let Ms. Kleeman answer that.

Chairman **GLENN**. Ms. Kleeman.

Ms. **KLEEMAN**. Certainly we believe in pay-for-performance as a principle. I think it has had some problems in the executive branch, primarily because it has had very little money put into it, and you can't have a reward system that is budget neutral. But certainly we would favor moving toward the principle of pay-for-performance, and we think we have done it quite successfully at GAO.

Chairman **GLENN**. Where does pay come from out of that? Is that an item in the budget, or do they eat that out of their—take it out of their hide that we talked about a little while ago.

Mr. **FOGEL**. Well, part of it could come from—some out of their hide, depending on if you don't have the total cost-of-living adjustment. And part of it may have to come from a willingness of agencies to just say that in setting their own priorities they are willing to spend a little more money on rewarding their better performers.

Chairman **GLENN**. Well under PMRS, is that where the money for it comes from now? The management of a particular agency, the director of an agency would say, okay, I want to use this authority that I have. Now, where does the money come from to tie pay adjustments to employee performance, which is what PMRS is supposed to do?

Mr. **FOGEL**. It is in their appropriations.

Chairman **GLENN**. Do they actually provide money for that in the appropriation specifically, a line item?

Ms. **KLEEMAN**. They must spend a certain amount, but it does come out of their general appropriation.

Chairman **GLENN**. Out of their general appropriation. In other words, they have to take it from other programs?

Ms. **KLEEMAN**. They eat it. It is part of their salary expenses.

Mr. **FOGEL**. In developing their appropriation request they will factor in how much money they want to pay in the PMRS system.

Ms. **KLEEMAN**. Only a certain portion of the work force is under this right now and there is an amount set aside to pay for pay-for-performance, the bonuses.

Chairman **Glenn**. Agency by agency, but not as a line item? They just have a percentage they can take from other programs? Is that the way it is done?

Ms. **Kleeman**. It is required to spend a certain amount——

Chairman **Glenn**. Required to spend a certain amount?

Ms. **Kleeman** [continuing]. On the bonuses for PMRS.

Chairman **Glenn**. Let me follow up on that a little. Agencies are required to spend a certain amount whether you had merit employees or not that they wanted to keep, but they would be required to spend a certain percent of their budget on that?

Ms. **Kleeman**. A certain percentage, but it is a very modest, very, very small percentage.

Chairman **Glenn**. It better be very modest.

Ms. **Kleeman**. It is very small. It has hardly been a very great reward system.

Chairman **Glenn**. Do agencies do that now? Do they say, I don't really need this but I am required by law to spend a certain amount on PMRS, so they blow the money on that?

Mr. **Fogel**. Well, no, I think it is incorrect to say they are blowing the money, Mr. Chairman. There is a process the employees go through and they are rated on their performance. And given the workforce that you have, you are always going to try to make distinctions between those people working with you that are performing better than others. So given the workforce, they will go through a rated process and those employees who come out rated the best will get more money than those that don't.

Chairman **Glenn**. Well, I am getting increasingly concerned about how we are doing this thing where all our programs seem to be you rob one program to do something else for the people in the civil service pay. And I just think we are not going to ever establish a good system unless we get away from that idea and, as you said in your statement, are willing to pay for it, ante up, they are not robbing another program. What administrator wants to have to figure out whether you are going to build three more bridges or give my people a raise?

And that is basically what we are talking about doing. There should be money to hire the people we need and that should be appropriated money and that is its purpose, it seems to me. Otherwise we are never going to have a civil service system that really sets up a pay support system for it that is adequate.

Mr. **Fogel**. We agree completely with that, and one of the things that most concerns the Federal agencies, the law enforcement agencies that were involved in the Law Enforcement Commission work, was that if some legislation was enacted there would be no monies to pay for the increase.

As we have said on numerous occasions in the GAO, we think that we are basically to the point where we are disinvesting in Government today, not only in this area but a lot of areas, and we are very concerned over the long term as to how much longer we can continue to go down this road. Last year not only did agencies have to pay for a lot of this out of their budgets, they had a sequester, we are not sure what is going to happen this year, and it does make it exceedingly difficult to try to manage effectively in this environment.

Chairman Glenn. Just one other question. Have you run an estimate of the cost of S. 2274 if activated in the way it is now?

Mr. Fogel. We have been talking with CBO on this, and the data is not too refined. But our rough estimate at this point in time is around a billion dollars, but we are trying to get more firm estimates. But right now it is around a billion, and we think CBO is generally in agreement with that.

Chairman Glenn. Fine. My time is up. Senator Roth.

Senator Roth. Thank you, Mr. Chairman. Let me ask you, I think in the Chairman's bill he would base pay increases on the Employment Cost Index instead of the Consumer Price Index. Now, it is my understanding the ECI is generally higher.

Do you have any position as to which measure would be better?

Mr. Fogel. Well, we have favored using the ECI, Mr. Roth, and I will be glad to supply this for the record to you. I am trying to recall. If you go back over a 10 year period, the ECI and the CPI are very comparable. In some years the ECI was a little higher. But we do think that, based on the work we have done looking at the BLS data, that the ECI is a more accurate rate of measure, if you will, on pay compensation issues than the Consumer Price Index. So we favor the ECI.

Senator Roth. But would you explain to me exactly what the Employment Cost Index is?

Mr. Fogel. I would like to let Mr. Copeland answer that.

Mr. Copeland. Sure. It is essentially a measure of the rate of increase of pay in the non-Federal sector. So if the rate of increase in state and local governments and the private sector goes up 5 percent, then that is essentially the ECI measure. You can look at it as wages and salaries or total compensation, and I believe the bill proposes looking at it strictly as wages and salaries.

Senator Roth. So on the surface it would appear to be more relevant.

Mr. Fogel. That's correct.

Senator Roth. I see. Now, you may have heard me raise a question about the size of the work force that has gone from 2.7 million to almost 3 million in the 1980's. Have you made any studies in GAO as to the size of the work force by agency, or elsewhere?

Mr. Fogel. No, but I am sure that we could get that data, certainly working with OPM. I am sure they have that broken down by agency, and I am sure we could also find out the growth or decline in particular agencies.

Senator Roth. Isn't it true that at least theoretically—and I am not passing judgment on whether it is too large or too small at present, although I have some thoughts on that—that with modern communications and technology that productivity should be moving up substantially?

Mr. Fogel. Yes, I would think that that would be a very reasonable assumption.

Senator Roth. Have we made any studies in GAO on productivity within the agencies?

Mr. Fogel. Well, we have certainly made a lot of studies looking at the extent to which computer modernization could help increase productivity. And again, on paper it looks good. One of the problems is the agencies generally have so many problems implementing new systems that we never realize all the gains.

Senator ROTH. Lack of a standard accounting system?

Mr. FOGEL. Well, it is not only a lack of basic accounting systems—the systems know where the money is—but they have problems implementing new hardware systems and software systems. Let's take the IRS, or Social Security. The IRS is still back in the 1950's and 1960's with their computers. I don't want to diverge too much, but they are back there. If you send your tax return to Philadelphia and you are going to get a refund, you would think in this day and age they could transmit that data by satellite to Martinsburg and get it done. They can't do anything like that. They have to still use the big tapes and someone has to take the tape and they give it to someone who transports it by airplane or something to Martinsburg.

So, you know, there are a lot of productivity improvements that could be realized that are not being realized today. Again, one of the reasons is we haven't been willing to invest properly and sufficiently in new systems to get there. And perhaps that could reduce the number of employees we need to do the work. But it takes some money to save some money.

Senator ROTH. That's correct. Hasn't GAO instituted a pay-for-performance system over the past year?

Mr. FOGEL. That's correct, we have.

Senator ROTH. I wonder what your initial response is to this system and how it could be applied to other Government agencies?

Mr. FOGEL. Well, speaking as one of the people who administer it and can pay out bonuses and rewards to very good performers, I think it is great. I think that we spent a lot of time trying to make sure that it is done in a fair and equitable way. I think we are learning as we are going, and we indeed can make some improvements in our own system. But we think it does have applicability to other Federal agencies. And in that regard I would support Ms. Newman's position that what we need to do is set up guidelines for agencies and let agencies have some flexibility to adopt these systems consistent with what their culture is. You can't just take one system and lay it on agencies that have different cultures and indeed different types of goals and objectives in terms of what they do. But generally we think it is working. And Ms. Kleeman has been intimately involved in it.

Ms. KLEEMAN. We also put some additional money into it so that our bonuses were more of a reward than they had been in the past. I think that made it successful too.

Senator ROTH. Ms. Kleeman, if I recall correctly, you testified on the early out legislation.

Ms. KLEEMAN. Right.

Senator ROTH. You heard me suggest that perhaps there might be a possibility to combine that with the pay raises as a means of financing. Do you see the flexibility developing in this area?

Ms. KLEEMAN. Well, certainly there could be some flexibility. I think that in the early retirement provisions that we testified on there was very little flexibility in who stayed and who left and we had some problems with the fact that, as Ms. Newman said, the most needed people might be those to leave. I think your provision for 25 percent, I believe it is——

Senator Roth. That's correct.

Ms. Kleeman [continuing]. With managerial discretion would move it a long way toward something we would think might have some possibilities. We would be glad to look at your current bill if you like us to.

Senator Roth. I would like to.

Ms. Kleeman. Thank you, we will.

Senator Roth. Thank you, Mr. Chairman.

Chairman Glenn. Thank you. Just a couple of questions.

Ms. Newman, you are still here. Maybe you could answer this question. We are talking about ECI and CPI. What are you going with at OPM? Are you going to go ECI?

Ms. Newman. A survey each year and pay based on the survey.

Chairman Glenn. So it won't be either CPI or ECI, it will be a separate calculation each year?

Ms. Newman. Right.

Chairman Glenn. And that will be done at OPM, or where will that be done?

Ms. Newman. No, BLS.

Chairman Glenn. Okay. BLS would do that. Okay. Thank you.

Mr. Fogel, let me ask you this, at GAO you say you administer this program in which you have merit pay. Is that a line item in your budget, or do you absorb that out of other programs?

Mr. Fogel. Well, I don't want to give away any secrets. We have don't have line items in our budget, Mr. Chairman. We just get one item, which is our total budget. Now, in discussions with our appropriations subcommittees, the members are very knowledgeable about how we spend the money, but we don't get particular line items. And there was a lot of discussion between members of the appropriations subcommittee and Mr. Bowsher, before we went to this system, over what we were trying to do, and they whole heartedly supported us putting more money into our pay system to reward our better employees more.

So there was a recognition on the part of both the Senate and the House Appropriations Committees that if this thing was to work well the GAO should spend more of its money for rewarding and paying its employees.

Chairman Glenn. Okay. Thank you very much. There may be other questions we could get to later. We would appreciate an early response.

Our next witness today is Mr. Martin Duggan, Chairman of the President's Advisory Committee on Federal Pay. For many years now the Advisory Committee has been advocating civil service pay reform and recommending that the Government move to a locality pay system.

Mr. Duggan, I look forward to your testimony on the bill, which includes a form of locality pay. And if you will summarize your statement, the complete text will be included in the record.

TESTIMONY OF MARTIN L. DUGGAN, CHAIRMAN, ADVISORY COMMITTEE ON FEDERAL PAY,[1] ACCOMPANIED BY LUCRETIA DEWEY TANNER, EXECUTIVE DIRECTOR

Mr. DUGGAN. Thank you very much, Senator, I appreciate that, and you certainly have fairly stated our objective.

We are happy to say that the Advisory Committee on Federal Pay has endorsed the concept of locality pay, striving for fairness. I was very much impressed, Mr. Chairman, by your use of the words that your goal is to seek a "fair and workable system," and we share that objective.

The Advisory Committee on Federal Pay is an independent agency, and I would like to make it clear this morning that while the three members of this Committee are appointed by the President of the United States to serve 6-year terms on a staggered basis, it would be fair to say that we do not represent an Administration viewpoint, and I don't want anything that I might say today to be—I wouldn't hold the Administration responsible for any of my remarks.

I am actually a holdover chairman because my term expired in January of this year, but the law provides that until a successor is appointed and sworn in, that the chairman stay in place. So I am particularly grateful to you, Mr. Chairman, for having invited us here this morning.

With me is Lucretia Dewey Tanner, the Executive Director of the Advisory Committee, and I would like to defer to her if the questioning gets into technical matters that I will need her expertise on.

We find ourselves in agreement with much of what has already been stated this morning. In your opening remarks, Mr. Chairman, you dwelt very effectively upon the shortages that exist. If we could request that our report to the President be inserted into record as well—Ms. Tanner has a copy of it here—I think you will find it useful, and it has much information covering some of the subjects that have been brought up this morning.[2]

Chairman GLENN. We would like to have that. We appreciate that.

Mr. DUGGAN. Thank you very much. The others members of our Committee are W. Perry [Pete] Brown, who is Vice President and Director of Personnel of the American Cyanamid Company; and Warren Keating Hendriks, Jr., a senior Vice President and partner in DHR International, Incorporated, an executive search firm. The day by day activities of our Committee are carried out by two General Schedule employees. Ms. Tanner is assisted by Ms. Betty Woodward, our staff assistant.

Mr. Chairman, I believe that one of the problems that we are confronted with is the word "comparability." Had the words "Fair Pay Act" been the title of the bill in 1970, we might not have as many hangups as we have. In any event, as we mentioned, the Advisory Committee has been preaching the gospel of locality pay in some form throughout the 6 years that I have been chairman, and our reasoning is that we represent the public, the ultimate employers of Federal workers. And our objective is to achieve fairness for Federal employees in a manner that is salable to these people back in the home communities.

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[1] See p. 113 for Mr. Duggan's prepared statement.

[2] See p. 306.

We don't see how anyone can argue against fair pay based on local market rates. Now, we understand that there are complexities to be concerned with and certain problems to be overcome, but the basic principle, it appears to us, is unassailable. Now, the pay act had been successful in achieving its objectives until October 1977, which was the last time full comparability was implemented. Since that time the pay gap has widened to an embarrassing anticipated 30 percent this year. If I may say so, had the recommendations of the Advisory Committee been accepted by the Administration and by the Congress over the years, this gap would not exist. We can demonstrate in our report that we would have closed this gap and we wouldn't be faced with the crisis that we are now all concerned about.

I think it is time that the United States stop acting as though it is some Third World undeveloped country that can't afford to pay its Federal employees decent and fair pay. In my testimony we refer to some examples that have already been adequately covered, so I will telescope over that, and you perhaps will be interested in knowing, Mr. Chairman, that the Advisory Committee will be holding its annual hearings, to which representatives of Federal unions, professional associations and others interested in commenting on pay matters, will be held in April of this year. Normally these meetings in the past have been held in August, which puts us in a very unfavorable position in making our report.

But by agreement with OPM, OMB, and the Labor Department, whose representatives make up the pay agent to deal with us, we are holding our sessions earlier this year. Because we feel that it will be constructive, also we are going to hold sessions in the field, in St. Louis, San Antonio and Boston. And it is our thought that these meetings will enable the Advisory Committee to expand its understanding of the Federal personnel situation.

I have a few comments and recommendations on some of the specifics in your bill, Mr. Chairman. First of all——

Chairman GLENN. Could I interrupt just one second. The places where you are going to have those hearings, were they picked with any idea toward hitting the extremes and seeing what the real problems are? Because I just was thinking the lowest cost place he mentioned just before from GAO was San Antonio.

Mr. DUGGAN. San Antonio, that's correct.

Chairman GLENN. I assume Boston would be one of the highest.

Mr. DUGGAN. That's correct, and we hope that St. Louis is in the middle, representing mainstream America where everything is at it best. Okay? And I am from St. Louis, Mr. Chairman, in case you didn't guess.

Chairman GLENN. A conflict of interest there.

Mr. DUGGAN. No, I think on the contrary sir, if you will forgive me, we are trying to hold down the cost.

I mentioned that I thought an improvement over the comparability pay act would have been to call it the fair pay act. People can hardly be against that. Respectfully, I might suggest, Senator, too, that we currently have a Federal Employees Pay Council which I am sorry to say has not been all that effective. In your bill you refer to a new body possibly as the Federal Pay Council. Might I suggest that a Federal Compensation Board or Fair Compensation Board might be a more palatable name for that? But that is just a suggestion.

Chairman GLENN. We will consider that. Thank you.

Mr. DUGGAN. It might seen odd to some of the people here this morning that the Advisory Committee is testifying favorably on a bill that seeks to terminate it as an entity. Well, we offer ourselves as selfless Americans, willing to self-destruct in the interest of improvement and progress. We recognize that a bill passed 20 years ago in 1970 clearly merits examination, possible reform, and if that means eliminating us, we are prepared to pay that cost.

I would earnestly recommend, however, sir, and if you would convey this to the other members of your Committee, that in the event that the Advisory Committee is eliminated, that the successor body make good use of invaluable experts already serving on the Advisory Committee. Now, we have just these two General Schedule employees, but they are experts. They have devoted much of their careers to this work. I think it would be tragic if their services weren't embodied.

Also, a member of our Committee, Mr. Perry Brown, who, as I say, is the personnel director for one of the largest corporations in America, largest employers, certainly would seem to me to be a logical member from the public to serve on the body that you suggest.

And I would like to suggest too sir, respectfully, to all concerned, that our Committee does not feel it is wise to designate the Director of the Office of Personnel Management as the Chairman of any new body as created. We think it places an unfair burden upon the person who holds that job, and it would be far more acceptable to people in Government, to people in the Federal work force, and to the general public to have one of your public representatives chair this body, and that would be a serious recommendation we would make because based on our past experiences we think that that is a worthwhile recommendation.

Mr. Chairman, if you want us to dwell upon some of the matters such as pay relatives and some of the technical considerations that came out this morning, I would like to defer to Ms. Tanner at this point if she feels that there is something essential that needs covering in our testimony, and then we will be ready for questions, if that is agreeable.

Chairman GLENN. Fine. We would welcome any comments you may have. Go ahead.

Ms. TANNER. I would just like to say just a couple of words and not dwell on some of the other technical issues that we address in our testimony, and other observations that we will make to your staff. But one of the issues that I think deserves a mention is the use of pay relatives. Now, there is no one way of establishing a locality pay system, but it appears that the pay relative concept may be a little bit too difficult for the general public, and even perhaps the Federal workforce, to understand.

Rather, we would suggest a simple comparison of Federal to non-Federal in the areas. Now, I understand part of the reason for going to a pay relative is a means of phasing in the differences, but at the same time I think by establishing a simple system of comparison Federal to non-Federal and in the area and phasing in the increases that are necessary over a longer period of time would probably be a step in the right direction for simplicity.

Also, just one more technical comment. In using the Employment Cost Index it is unclear just exactly which Employment Cost Index would be used. Also, it appears that there is a year's lag between the time the index is constructed to the time it is actually implemented, and in that year's time a great deal of changes in the economy could take place. So I would think that the board or council or whatever is established, in conjunction with the President, should be in a position to adjust that increase.

Those are just a couple of the observations that we had, and we would like to take questions. Thank you.

Chairman GLENN. Good. Thank you. Let me define better the "pay relative." Can that also be defined as a pay ratio? Because as I understand it, what you talk about is pay relative, you are talking about the average in a local area compared to the national average for that same job category; is that correct, it is a ratio of those?

Ms. TANNER. That is, I believe, the intent of the bill, to compare the local wage rate structure to the entire national for that category. That, again, maintains the belief that there is a national wage schedule. Also, although I didn't mention it initially, I think that having 3 different increases within an area could in fact create some problems. For simplicities sake, and I think for perhaps initial equities sake, a single increase within an area might be appropriate. Perhaps down the road after 5 years it might be appropriate to split occupations out, but I think initially a single increase might be appropriate.

Chairman GLENN. Mr. Duggan, do you have any preference on ECI, CPI, what we use as some of the bases here?

Mr. DUGGAN. We have used the ECI in the past in making our report to the President, Mr. Chairman. At one point when I was appearing before a House committee I believe our logic was challenged on that, but we felt it was supportable.

Chairman GLENN. Why did you pick that one, because that is one that we will have to deal with here.

Ms. TANNER. If I may, I think there is a difference in philosophy between basing your increases on the cost of wages versus the cost of living. And I think that—it depends, of course, on the period of time you select, but the Employment Cost Index has clearly matched over the past 20 years the increases in the PATC survey in the year to year increases. So this parallels what has been established as comparability in terms of the actual increases.

We feel that basing it on a cost of living is not the appropriate way to set pay for Federal employees. As a matter of fact, if you look at the private sector and their approach to setting pay, their pay programs, they look at wages, wage rates paid, and they spend untold hours actually conducting surveys and participating in surveys. There are surveys that come out for every occupation, and companies have staff looking at wage rates and they generate surveys, untold surveys. So I think that the concept of wages to wages is the approach that is appropriate.

Chairman GLENN. Mr. Duggan, you have been Chairman of the Committee for 5 years. Where has your product gone? Did you ever present this directly to the President?

Mr. DUGGAN. Our conduit, Mr. Chairman, is OMB, and we submit our reports directly to the President.

Chairman GLENN. Via OMB? Did you ever meet directly with the President yourself to present the views of the Committee?

Mr. DUGGAN. Did I personally?

Chairman GLENN. Yes.

Mr. DUGGAN. I haven't had the opportunity sir. I would have certainly welcomed it.

Chairman GLENN. Who did you actually meet with to present the views of the Committee?

Mr. DUGGAN. Well, we hold annual meetings with the Administration as well as with employee and professional organizations. We meet with either the Director of OPM, or a designate in each case, OMB, and the Labor Department. Those people make up the pay agent. But our normal contact in dealing with the White House was someone at OMB, and those were guidelines laid down for us.

Chairman GLENN. S. 2274 provides for locality differentials to be included in base pay for purposes of certain benefits such as retirement and so on. Do you think that is appropriate? What is your view on that?

Ms. TANNER. Well, I think that the basic underlying philosophy of a pension benefit is a replacement, a certain percentage replacement of your actual earnings, so that your standard of living is maintained. And if that philosophy is carried through then, of course, one would assume that those increases in an area would be included in your base pay.

Chairman GLENN. Did you look at options to the General Schedule in your Committee work? In other words, what Ms. Newman is talking about is a little different system than we are talking about with this. We have a lot of comparable things in both pieces of legislation as I understand it—we haven't seen that one yet—but in this area it appears we are very different in our approach to it, and I really would seek guidance in that area.

Do you think a General Schedule plus variations is the way we should go, or do you think we need to dump the General Schedule and go to the other——

Mr. DUGGAN. We have had a great deal of concern about fragmentation, proliferation of special rates and whatnot, and I am sure that Ms Tanner can give you a feeling on it a bit better than I, Senator.

Ms. TANNER. Well, I understand the general proposal is to split the General Schedule and provide for national rates on professional, technical and local labor market rates for clerical and administrative positions. I think that initially, as we suggested in our statement, that a simple general schedule comparison in each area would be a very good first step in adjusting pay to a local labor market situation, rather than attempting to split the General Schedule at this time.

Chairman GLENN. Thank you very much. We may have other questions for you from other members. We would appreciate an early reply so we can include that as part of the record.

Senator Lautenberg is a cosponsor of this legislation and he has asked that a statement of his be included in the hearing record. That will be included in the record.[1]

Also a statement by Senator Mikulski on the same subject, and include that in the record also.[2]

Our next panel is Mr. Dwight Greenspan, Director of Compensation for GTE Corporation; Ms. Madelyn Jennings, Senior Vice President, Personnel, Gannett Company, Inc.; and Mr. Donald Black, Compensation Executive, Rockwell International Corporation.

We welcome you all to our hearing this morning and look forward to your testimony. These are three of our major private sector corporations which have adopted locality pay systems for their white-collar employees. The firms have a large number of employees widely dispersed in as many as 40 of our states across the country, and thus the dispersal of their operations is analogous to Federal agencies. So we look forward to your testimony and why you instituted locality pay, what advantages you see in it, and how it is working.

Mr. Greenspan, would you lead off?

TESTIMONY OF I. DWIGHT GREENSPAN, DIRECTOR OF COMPENSATION, GTE CORP.[3]

Mr. GREENSPAN. Thank you, Mr. Chairman. We appear here at the request of the Committee, as you just mentioned. GTE is a diversified multinational corporation with revenues exceeding $17 billion and a work force of 160,000. In the United States our 125,000 employees work in 48 States and hundreds of communities. My testimony today pertains to the roughly 35,000 U.S. management and professional employees for whom compensation and benefit plans are developed by corporate headquarters. That is my department.

Our experience with locality-based pay, or as we refer to it, zone structures for this employee group, dates back to January 1982. Prior to that GTE, like most companies at the time, administered salaries for this group within a single national structure or pay schedule, as the Federal Government calls it. During 1981, however, we first became concerned over this particular practice. The reasons for this were the following: In some locations we received complaints about the fact that the national pay ranges were too low to permit attracting qualified candidates, and often those that we did hire commanded salaries so high as to cause what we refer to as salary compression in relation to the pay rates of existing longer service employees. In these same locations we also experienced retention problems as competing firms—I might mention, not the Federal Government—offered more than what was our own national range.

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[1] See p. 204.
[2] See p. 208.
[3] See p. 123 for Mr. Greenspan's prepared statement.

In other locations the reverse situation existed, with range minimums higher than necessary to attract qualified applicants and average pay reportedly exceeding prevailing community rates.

Our compensation managers were increasingly being pressured into tampering with the job evaluation levels, either on the high side or the low side, to bring their employees' salary opportunities more in line with actual labor market conditions.

Around the same time certain national surveys were beginning to come out indicating that inter-industry pay and benefit patterns had some significant variability. The variability presumably always existed, but it is these surveys that suddenly became available that in fact brought the matter to the surface. Other surveys began to show growth in what we refer to as "at risk" variable compensation.

With rapidly rising relocation costs, recruitment efforts for all but very senior management jobs started shifting away from the nationwide sourcing toward more local markets. This change alone began to affect our companies view of the importance of a single national structure in facilitating transfers.

Guided by the above information, we began to reassess this particular issue and the practicality of a single national structure. And although we didn't have an immediate path, or a clear path, we knew what we had to do, which was not to abandon the structure until we had some solid and consistent market data for all locations and principal industries.

We knew that we had to look at more than merely base salary. We were interested in looking at also what I just referred to as "at risk" variable pay, as well as the cost of benefits, which forms the picture that we refer to as "total remuneration."

We had to have a method that was easily communicated to all concerned, and since we were more concerned with market based pay plans, we were guided by prevailing community rates as opposed to cost-of-living indices. We were adverse to using something that is referred to as pay allowances because of what we thought were administrative burdens, as well as the difficulty of taking these away once they were granted. We were worried about major administrative disruptions and moral problems.

Since no private or public source was available to us. we commissioned our own survey of 400 companies in 22 regions. Benefit information was obtained in a separate manner. We tabulated an awful lot of information. We then collapsed that information into something that is referred to as "market pay lines." It is a graphical portrayal of an awful lot of tabular information.

The analysis of those lines indicated the following: There appeared to be no direct correspondence between levels of pay and cost of living; that is, not total correlation between those. We found examples of relatively high pay levels in areas with comparatively low cost of living, such as Dallas, and conversely modest rates of pay in high cost of living areas such as Honolulu or Boston. We found that the 22 regional market lines could be collapsed into 5 major groupings, what we ultimately called zone structures, with about a 7-percent difference between each one, and a 28-percent total difference high to low.

These changes, with respect to implementing the structures, was carried out over a phased-in 4-year term. We did continue to see a national market above 75,000 in total compensation—that is in 1982 terms—and we retained a national structure at that level. Inter-industry differences did in fact exist, and at times several of the units adopted pay structures geared to their own industries.

The value of our benefits package appeared consistent with that of other companies in our industries, regardless of area, and therefore we left the benefits as they were.

Our experience to date has been roughly 9 years. The new page structures were implemented without immediately increasing or decreasing actual salaries. In subsequent years we adjusted what we refer to as merit budgets either up or down to allow average salaries to fall in line with the new structures. The process has been seen as a sound business decision because it has arrested many of the problems that we previously had with respect to attraction, retention and compression.

The established pay adjustment procedures relating to transfers has helped also. And finally, employee reaction to the new regional pay structures has been positive. Our employees readily accept the notion of their own pay opportunities being tied to that of major employers in their own geographic area.

I can now answer questions.

Chairman GLENN. Fine. Thank you very much.

Ms. Jennings, Senior Vice President, Personnel, Gannett.

TESTIMONY OF MADELYN JENNINGS, SENIOR VICE PRESIDENT, PERSONNEL, GANNETT CO., INC.

Ms. JENNINGS. Good morning. My comments will sound similar to Mr. Greenspan's.

Gannett operates in 40 States. We have locations ranging from Chillicothe, Ohio, to Honolulu, Pensacola to Los Angeles, Boston to New York. Our stated philosophy is like many other firms, and that is to pay fairly and to pay for performance. Our salary administration program is reviewed annually to ensure competitiveness. While the salaries of our executives are administered on a nationwide program, the bulk of our employees are administered on market sensitive, performance based programs at the local operating unit level.

We believe that it is imperative that our operating units be competitive within their local labor market. Thus, local programs are tailored to meet the competitive nature, problems, and needs of that particular market. Local personnel representatives work with corporate compensation to develop these programs. Corporate subsequently takes an advisory role, providing expertise on specialized surveys, unusual problems, or incentive based or alternative pay plans.

In broad terms, our local surveys target companies whose size, organization, public, private, for-profit or nonprofit, and geographic area are similar to that of our operating units. Organizations which attempt to attract individuals with the same skills as those required by Gannett. Surveys can also be industry sensitive where appropriate.

These surveys deal with a benchmark sample of positions that reflect a wide variety of Gannett positions. Salary ranges for each job are reviewed and updated based on this data typically every 12 to 18 months. Individual salary increases are based on levels of performance, not on automatic cost of living adjustments.

With information directly in the hands of local personnel reps we can promptly respond to local market pressures, unexplained turnover, cost containment issues, et cetera. Specialized compensation programs can be developed to address specific situations without having to worry whether or not such programs would be appropriate in other locations. By the same token, it allows us to pilot new compensation programs to ensure that they meet our pay-for-performance objectives before implementing them more broadly in other locations.

Because compensation varies so across the country, we strongly support the need for local operating units to have a say in the development and administration of merit, performance and other compensation programs using tools such as those obtained by surveying the local marketplace, also by analyzing turnover studies, candidate interviews, and exit interviews.

I have just several comments I would like to make in addition to that. I would say in a change to a locality system I, myself, might raise some questions about some of the professional and administrative jobs which perhaps should be handled on a local basis. So I would raise that as a question. I would urge that a monster bureaucracy not be established here to monitor this process, that much can be done at the local level.

I would urge working diligently toward pay-for-performance, and working just as hard to establish the concept of termination for poor performance. Discipline and discharge shouldn't be such a nightmare managers conclude it is not worth the time it takes to fight the battle. And I would look very hard at job scheduling flexibility. There may be many who wish to work fewer hours, who perhaps have spouses with benefit programs, and could go into part-time or flex-time situations happily, which might open up more dollars available for compensation in some of the high-cost areas. Thank you.

Chairman GLENN. Thank you very much.

Mr. Black.

TESTIMONY OF DONALD A. BLACK, COMPENSATION EXECUTIVE, ROCKWELL INTERNATIONAL CORP.

Mr. BLACK. Good morning, Mr. Chairman.

Rockwell International is a $12.5 billion multi-industry company with 108,000 employees worldwide, organized into four basic sectors, electronics, aerospace, automotive, and graphic systems. These sectors encompass nine diverse core businesses. Today I would like to focus on our salaried workers in the United States, currently 56,000 people. Approximately 40,000 are exempt professional, administrative and management employees, and 15,000 are salaried non-exempt secretarial, clerical, and support employees.

We have employees in 48 of the 50 States and the District of Columbia, with a majority of these employees located in 12 States.

These employees are located in small towns, in major metropolitan areas.

During the decade of the 1970's, Rockwell had a very centralized compensation program with all salary structures being developed and approved at the corporate offices. These non-executive salary structures consisted of from 10 to 16 salary grades or ranges. This included a single national exempt salary structure for all business, and various salaried non-exempt structures based on business or regional needs.

During the 1980s certain changes began to occur which prompted us to review our system of using a national exempt salary structure. These changes included the stepped up competitiveness in all our business units, varying labor costs by area or market place, and wide swings in the cost of living from area to area. Additionally some of our businesses were growing rapidly while others were facing difficult business conditions. Based on these changes, Rockwell moved toward a more decentralized compensation program.

Individual business units became more involved and took responsibility for the development of salary structures for their own organizations based on market data from local or regional areas in which they were located. The intent of this change was for Rockwell to be able to pay competitively to attract and retain qualified people in the localities in which we did business.

We realized that a salary structure based on data from large urban cities, such as Los Angeles or Pittsburgh, will be far too high for some other locations, and that a salary structure based on data from a lower cost area would be too low for the Los Angeles or Pittsburgh areas. To try to strike a middle ground would still leave one area with a salary structure too low for the competitive market and another location with a salary structure that did not have to be as high to attract and retain qualified people.

The decentralized compensation programs that we finally adopted provide the business units with the flexibility needed to adapt to a changing marketplace.

Business units, as well as the corporate offices, either participate in or conduct surveys on an annual basis to determine their position in the marketplace. This data is then used to develop salary structures that are keyed to the marketplace of the respective business units.

We feel that the use of varying salary structures on a local or regional basis provides the following advantages: Permits flexibility in addressing the marketplace; maintains a business unit's competitive position in a market place; assures the ability to attract and retain qualified people in the competitive marketplace; permits differential between high and low cost areas; does not skew the salary structure either up or down to best fit for all locations; grants more autonomy to business unites; and stimulates interest in the local market place; and provides more relevance to local surveys.

A disadvantage that must be realized is the transfer of an individual from a high paying to a lower paying area. Such individuals would go on a salary structure of the local area and may fall higher in the new salary range at the previous location. Thus, the individual might be paid somewhat high for the local marketplace and future salary increases might be somewhat less.

In summary, the use of multiple salary structures affords the flexibility to provide a compensation program that is based on a changing and diverse marketplace. I would be pleased to answer any questions.

Chairman GLENN. Thank you, Mr. Black.

Does your locality pay apply both to the senior level and to lower level people also?

Mr. BLACK. For those individuals in our executive plan, which are roughly above a mid point of 88,500, they would be on a national structure. For the rest of the corporation, they are on either local or regional.

Chairman GLENN. So that would be similar to what you were talking about, Ms. Jennings, is that right?

Do you have it at a cutoff on a dollar cutoff, or is the position exempted?

Ms. JENNINGS. It is a position cutoff. It would be upper middle management on up would be on the national program.

Chairman GLENN. And you have that defined on your organizational chart as to where that level is?

Ms. JENNINGS. Those essentially would be department heads reporting to general managers. They would be included in the national program. Everybody else would be local.

Chairman GLENN. Is that the way you do it, Mr. Greenspan?

Mr. GREENSPAN. We do it on the basis of grade, which is roughly a reflection of job size, job content, importance of the job to the company.

Chairman GLENN. Do you put the senior level on a national basis mainly because they are shuffled around from one division to another a lot, and so you just make this companywide, or are they above an area where their salary levels are such that locality pay up and down a little bit is not that big a percentage of their total compensation, so they have their higher salary and that is that? Is that the basis?

Mr. GREENSPAN. No. Our experience has been—and this is roughly five consecutive biannual surveys—that in fact once you get into roughly 100,000 of total compensation those locality-based differences appear to disappear. And so we have simply followed that particular market-based guideline.

Ms. JENNINGS. When you are dealing at that salary level, probably you are dealing also with a salary range on a job which may be as wide as 50 percent, so a person making 75 could have a job range possibly which would cover movement to a more expensive area, typically. Often those jobs are searched for on a national basis, too. Furthermore, those are the kinds of jobs which typically would be participants in long term incentive programs, and those programs, generally speaking, you want to administer those on a centralized basis.

Chairman GLENN. Let's say you take your extremes though, do you make exceptions to the rule? Are you flexible enough that you can do that? And I am thinking of this. Let's say we took that San Antonio we talked about earlier and you have a Rockwell employee in San Antonio and you are going to move him into Manhattan, right into the middle of New York. If he is in the $75,000 to $100,000 range, that is going to be a little bigger impact on his overall take-home at the end of the year.

Do you adjust for that, or do you give him any bonus to make up for that? How do you do it?

Mr. **Black**. No, we do not adjust for that. Many times when an individual does move—and this it not at all times—but there is a promotion involved. I mean, that is one of the reasons an individual moves, they go into a higher grade. However, we have had people that have moved from say Houston or Dallas to the Los Angeles area—those are areas we have locations and have moved across the board. And they stay in the same salary grade. Their pay would remain relatively the same.

Chairman **Glenn**. Do you help them with transition, with housing and things like that? Do you have a program for that that helps them move into a new, more expensive area?

Mr. **Black**. Yes, there are relocation allowances. Yes.

Chairman **Glenn**. But you don't figure that as part of your compensation.

Mr. **Black**. That is not part of the base pay, no, sir.

Ms. **Jennings**. We view certain locations—Los Angeles, San Francisco, Honolulu as examples, New York—as almost being special and unique, and so the relocation process would be enriched for someone going to one of those locations.

Chairman **Glenn**. The compensation would, or they would get a yearly bonus for serving in that area, or what?

Ms. **Jennings**. They would get a bigger relocation bonus for going to one of those areas. We have been known to take equity in a home in the new location because a person couldn't afford to buy a home there without further help. Typically it is a promotion, as he indicated, so they are getting a salary increase as well.

Chairman **Glenn**. How important do you view that? Is that looked at as being extremely important by your people? Because we don't provide anything like that, anything comparable to it, help on a house and things like that, when we have civil service or military transfers either one.

Is that an important factor for your people when they move?

Ms. **Jennings**. I would say yes. It was perhaps even more of a factor a few years ago when the mortgage interest rates were so high. But I would say yes.

Mr. **Greenspan**. We have, I think, been following the lead of many other major companies. All of our major competitors have in fact in the last 5 to 6 years instituted fairly attractive relocation programs, including an element which we use, and that is an element of a one-time payment to kind of help that employee to purchase such things as new carpeting, new curtains and so on. That is in addition to the actual cost of movement of household goods, helping in the sale of the home and purchase of a new home and so forth.

Ms. **Jennings**. Employees really expect that kind of help, and it is getting even more expected when you are asking a dual career family to make a move, which is a very big decision. So I think companies are doing more things today than they have ever done before on the relocation side.

Chairman **Glenn**. That is one I am not sure Ms. Newman and I either one want to get into at the Federal level at the moment. We would rather get one of our problems settled at a time, I guess.

How often do you survey each area to adjust your pay rates, Mr. Black?

Mr. **Black**. Annually. Normally there are annual surveys.

Chairman **Glenn**. Do you do them annually?

Ms. **Jennings**. Twelve to eighteen months.

Mr. **Greenspan**. In the United States, with rates of pay moving roughly 5, 5.5 percent per annum, we find that biannual is sufficient. In places like Brazil we survey monthly. [Laughter.]

Actually, we switched to biweekly but——

Chairman **Glenn**. And you are still getting behind.

You people are all involved in profit making operations, you have to be conscious of the bottom line in what you do, it has to pay off.

Now, do you set your pay rates to be comparable to other employers, higher than other employers, or lower than others? What is your best efficiency?

Mr. **Greenspan**. I think no one in my position would stand before your Committee and tell you that we would put our salaries anything other than what we refer to as right on the money, at the 50th percentile. That is the competitive rate.

Chairman **Glenn**. As I understand, the previous witness said that we were at 40 in the Government I believe. Is that correct?

Mr. **Greenspan**. That may be, yes.

Chairman **Glenn**. You don't try and go 51 percent?

Mr. **Greenspan**. We have been tempted.

Chairman **Glenn**. So you are getting maybe a hair better people than you would otherwise be able to get and retain, less turnover?

Mr. **Greenspan**. There are occasions if we are moving into an area where, for example, Rockwell is already situated and we are trying to hire away people, we might set it at 51.

Chairman **Glenn**. Mr. Black, has he talked to you recently?

Mr. **Black**. He does do that though.

Chairman **Glenn**. I presume you do it back to him again too.

Ms. **Jennings**. Where you set your competitive rate is not indicative necessarily of the job offer he will make to one of his executives when he wants to go get him. In other words, there is a salary range typically of 50 percent. The competitive rate is the middle point of that range, so he would probably go higher in the range to hire one of his people.

Chairman **Glenn**. And you would do the same thing if you were trying to hire someone else?

Mr. **Black**. We may. What we try to do is set the salary structure mid point at the market, and then with a 50 percent spread from minimum to maximum. You can then pay people within that spread, again based on performance.

Chairman **Glenn**. Has there been any situation in recent memory that you can recall where one of your employees that wasn't getting fired for other reasons voluntarily left and went to work for the Federal Government? Ms. Jennings.

Ms. **Jennings**. I can't think of any.

Chairman **Glenn**. Mr. Black?

Mr. **Black**. I can't recall one off the top of my head, sir.

Mr. **Greenspan**. We have had those situations, certain scientists and certain employees, in fact, in Washington who have gone to work for Federal agencies. I have no idea as to whether or not pay had anything to do with it. I doubt it.

Chairman **Glenn**. I doubt it too. Some of the scientists come in I know—when you refer to that—some of them come in because of special projects they want to be involved with, and things like that that are a different attraction than just the money. But across the board we are so far behind in money I think that is a major factor in trying to hire a lot of people.

We may have some other questions for you when the Committee reviews the transcript of the hearing. We appreciate your being here this morning. Thank you for testimony, it was very helpful. Thank you very much.

The hearing will stand in recess subject to the call of the Chair.

[Whereupon, at 12:15 p.m., the hearing was adjourned subject to the call of the Chair.]

CIVIL SERVICE PAY REFORM

THURSDAY, MARCH 22, 1990

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 9:35 a.m., in room SD-342, Dirksen Senate Office Building, Hon. John Glenn, Chairman of the Committee, presiding.

Present: Senator Glenn.

OPENING STATEMENT OF CHAIRMAN GLENN

Chairman GLENN. The hearing will be in order.

Good morning and welcome to our second day of hearings on S. 2274, the Federal Pay Comparability Reform Act of 1990. Yesterday we heard the views of Government and private sector witnesses, and today we will hear from representatives of employee organizations. I will not go into all the detail I went into in my opening statement yesterday. Many of you were here yesterday, I see some of the faces in the crowd here as a matter of fact.

The testimony of Government witnesses was unanimous that the current pay setting process has failed and needs to be reformed, and they suggested adopting some form of locality pay in order to make the Government more competitive in local labor markets. The private sector witnesses told us about the advantages of locality pay and why their firms adopted it. Because their firms experienced many of the same pay problems the Federal Government is facing today, they decided to change from national pay scales to locality ones.

As witnesses we have with us today representatives from the three largest Federal employee unions, the American Federation of Government Employees, the National Federation of Federal Employees, and the National Treasury Employees Union. We will also hear from representatives of the Federal Managers Association, Professional Managers Association, and Federally Employed Women.

As I said yesterday, time does not permit us to hear from all of those who asked to testify. I would encourage all interested parties to submit their statements for the record and they certainly will be duly considered.

I also wanted to let everyone know at this time that I would like to submit for the record a report that we received yesterday from the Congressional Research Service entitled "Pay for Federal Employees: Reexamining the General Schedule." [1] This report is the result of a joint request by Senator Roth and myself for a study of the history of the general schedule and locality pay proposals. And copies will be available. I am not sure whether right now or will be later today.

On our first panel this morning we are glad to welcome Mr. John Sturdivant, National President, American Federation of Government Employees; Mr. James Peirce, President, National Federation of Federal Employees, and Mr. Robert M. Tobias, National President, National Treasury Employees Union.

I guess maybe we should have left the distribution until after the end of the hearing. I didn't mean to start a stampede. [Laughter.]

On this panel we have Mr. John Sturdivant, President, American Federation of Government Employees, James Peirce, National Federation of Federal Employees, and Mr. Tobias, who will be with us shortly. I understand he is on the way.

Gentlemen, I understand you are prepared to summarize your written testimony and the full text of your statement will be included in the hearing record. Mr. Sturdivant, if you will lead off.

TESTIMONY OF JOHN N. STURDIVANT, NATIONAL PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES [2]

Mr. STURDIVANT. Good morning, Mr. Chairman. My name is John Sturdivant. I am the National President of the American Federation of Government Employees, AFL-CIO. On behalf of the more than 700,000 Federal employees our union represents I am pleased to have the opportunity to testify here today on the Federal Pay Comparability Reform Act of 1990.

AFGE members work in agencies and programs throughout the Government. We represent Government workers in virtually every pay status. Reform of the Federal pay system is therefore of the utmost importance to us.

Mr. Chairman, you have the gratitude and support of AFGE for your willingness to address the need for reform of the Federal pay system. The legislation you introduced makes clear that you agree with us that this issue must be addressed immediately, not only as a matter of equity, but also as a matter of practicality. There is no easy way to fix the Federal pay system. The recognition of that fact is made abundantly clear in your bill. What is not as clear is a recognition of the fact that a real fix will cost money.

My comments today are largely in support of the technical procedures set forth in S. 2274. Whatever disagreements we may have over details remains secondary. If fully implemented the Federal Pay Comparability Reform Act of 1990 will cost the Government roughly 1.3 to 2 billion more than it currently spends for Federal pay, and while we understand that this is a substantial sum, it is small potatoes with respect to the amount required to bring Federal pay up to comparability with the private sector.

Allow me to put this in perspective. A few years ago the American Government began starving itself. As a result, its ability to retain and attract a qualified work force has steadily eroded. Now the Government on a large scale is wheezing and coughing and has a great deal of difficulty doing the job the American people want it to do. We spend hundreds of billions to develop the largest dream machines for the military complex. We spend in excess of 22 billion for research and development to buy three airplanes. But we won't spend what it takes to restore the salary level and the health of the American Government work force, the workforce that maintains the military hardware, the workforce that watches over the banks, the bailouts, and all those who work hard to make our Government work.

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[1] See p. 290.

[2] See p. 129 for Mr. Sturdivant's prepared statement.

This bill includes several key points that AFGE believes are crucial for successful restructuring of the Federal pay system. These include the principle of comparability with the private sector, a guarantee that the General Schedule pay will be automatically adjusted each year by a percentage equal to the change in the ECI, and a promise that all salary adjustments will be fully funded. Comparability with the private sector is a principle which is both equitable to employees and rational for the Government as an employer. Using the ECI for annual adjustments for GS employees is an appropriate way to ensure that the large gap between Federal and private sector pay which exists nationally will neither widen nor rise again.

AFGE strongly supports the intent of this legislation to restrict severely the President's authority to implement alternative pay plans which reduce or deny salary increases to Federal employees. We believe that this authority has been largely responsible for preventing Federal employees as a group from achieving comparability with the private sector.

The full funding of the pay raises is perhaps the most important point of all. This provision will mean an end to the practice of forcing agencies to absorb the costs of pay raises. Any fat within the Government agencies has long been trimmed away. We are now down to the muscle and bone. AFGE recognizes that locality pay differentials are an essential element of the comparability equation. We also know that any system which involves pay differentials must be scrupulous with respect to issues of fairness and equity if it is to succeed.

This bill goes a long way toward reaching that goal, but there are a few aspects of the design of the system which we find problematic. First is the proposal to grant separate locality differentials on the basis of occupation. We recommend one pay line per locality to cover the traditional PATC series. This method is well established in the Federal wage system, is administratively viable, and would not aggravate the pay equity/comparable worth problems which exist throughout the Government.

Second is the size and composition of the Federal Pay Council. We believe that management and labor should have equal representation, and that the chair should be elected from the outside by the members of the council. Third is the schedule and relative importance given to closing the nationwide gap between private and Federal sector pay. We believe that a plan to close the gap should be devised at the outset of the process of pay reform rather than after locality pay adjustments have been made.

Fourth, an assurance that no employee's salary will ever be lowered under the new system is of particular concern to AFGE. We believe that the system set forth in this bill leaves open the potential for salary reductions under certain remote possibilities. A protection against this possibility will go a long way in allaying fears about the desirability of a system based on locality differentials.

Finally, we have serious concerns over the fact that the system's data requirements go beyond the current capability of the Bureau of Labor Statistics. The bill authorizes BLS to use commercially available data for supplemental data. AFGE opposes the use of private data sources, both in terms of the questionable reliability of such data and because there currently exists no commercial data banks sufficient to meet the pay setting demands of the Government under the proposed bill.

Mr. Chairman, I would like to thank you once again for inviting me here to testify today. I also want to express my appreciation to you for placing such a high priority on Federal pay reform, and for taking such a wise approach in this bill. We are convinced that a consensus can be built upon this legislation that will lead to the development of a credible pay system for Federal employees that is fair to both the employees and the taxpayers.

We look forward to working with you and members of your staff on this legislation, and if any member of the Committee has any questions, I would be happy to attempt to respond.

Thank you, Mr. Chairman.

Chairman GLENN. Thank you, Mr. Sturdivant. We appreciate it very much.

Mr. Peirce.

TESTIMONY OF JAMES PEIRCE, PRESIDENT, NATIONAL FEDERATION OF FEDERAL EMPLOYEES [1]

Mr. PEIRCE. Thank you, Mr. Chairman. I am James Peirce, President of the National Federation of Federal Employees. I would like to thank you and express our appreciation for the hearings on this vital subject and for your introduction of the Federal pay reform bill.

We all know that Federal pay is at an all time low when compared to private sector pay rates. What was once the pay gap has become a pay chasm into which Federal employees are falling. Clearly something must be done, and these legislative hearings are a positive first step in that direction. NFFE commends you for having the courage and the strength to address the problems of pay in the Federal sector. Ultimately we prefer a legislative change that immediately works toward closing the significant wage disparity between the public and the private sector. Despite their importance, perhaps no other segment of the country's work force has taken such a harsh beating, both through political rhetoric and the pocket book, as have Federal employees.

Many people forget that American civil servants have been responsible for some of our most important and significant advances. When disaster strikes, civil servants are dispatched to aid the affected families. Civil servants—many of them NFFE members—risked their lives to bring the forest fires that raged on the west coast in 1988 under control. Currently civil servants are searching for cures to AIDS and cancer, and in the past their work was equally vital in finding cures for polio, rubella, and the measles.

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[1] See p. 144 for Mr. Pierce's prepared statement.

NFFE members from the Corps of Engineers are still assisting the hurricane ravaged communities in the Caribbean, and last month Clayton Cutter, an NFFE member from the Forest Service, drowned while valiantly trying to save 6 people who had fallen through the ice. Simply put, civil servants work hard for America every day and they deserve to be fairly compensated.

We believe that even in this time of fiscal crisis money must be appropriated to pay our Federal servants what they deserve. We are not asking that Congress give workers a 28-percent raise tomorrow. That would be unrealistic. It is possible, however, to spread out the necessary salary adjustments to close the gap over time. The key is to close the gap. Anything else would be unfair to Federal workers and would continue to drain the public service of its most valuable resource—intelligent and hard working people.

When a new system that provides fair pay is implemented the Government must also put to rest the idea of pay absorption. New money must be appropriated to make pay reform a reality. If raises are implemented and agencies must absorb the brunt of the raise, the results can be devastating. One stark example comes from an NFFE local at the Northport VA Hospital in New York. Because of budget cuts and pay absorption, the Northport VA has suffered large staff reductions. The obvious result is that quality health care is not always provided. Absorption has not only created a cutback in medical personnel, but has also reduced the number of people who work in the physical plant by more than 50 percent. The understaffing of building custodial personnel has caused patients to go without fresh linens or clothing, and patient care has suffered accordingly.

This is but one example of the harmful effects of pay absorption. In its report, the Volcker Commission cited scores of problems that arise from poor pay. Once there was a clarion call to public service. Now, for reasons like poor pay, the best and the brightest scoff at the idea of Federal service.

NFFE applauds the incorporation of the Employment Cost Index as an automatic trigger. The utilization of private sector costs of labor data has been shown to be a credible means of maintaining public sector pay comparability. We did indicate, however, in some of our past statements that this needed to be expanded, that currently the survey performed by BLS does not go far enough. By limiting the ability to offer alternative pay plans, Senate bill 2274 will provide a fair approach under which all general schedule employees will automatically receive a pay raise comparable to that which private sector employees received the previous year. However, as the language is currently written, the President has the authority to offer a different pay plan if a national emergency occurs or is national wage controls are in effect. NFFE believes that the only time that the President should be allowed to offer a pay wage different from the ECI is when wage and price controls are in effect.

However, I want to make it clear from the outset that our comments should not be construed as totally unsupportive of the bill. However, we must clearly state our problems and hopefully work toward resolving them. One section of the bill that must be changed is the advisory council and the means by which it is established. As written, only one-third of the council will include employee representatives while two-thirds would include administrative appointees. Such an imbalance in representation contradicts the very concept of a joint council. Further, the language is written so broadly that one or all of the three unions that represent the largest number of Federal employees may be left off the council. NFFE cannot support the council in its current form. We suggest that the Governmental Affairs Committee adopt language similar to that used in the development of the Federal Prevailing Rate Advisory Committee statute.

We also suggest that a greater balance in the ratio between employee representatives and administrative appointees be established. As has been our history, NFFE has reservations regarding locality pay and the means in which it is implemented. We believe it is essential to maintain a national pay line. We cannot and will not support any form of locality pay if there is not a standard minimum pay line and all Federal employees do not get an annual raise. Your bill has taken this concern into account and does not diverge from the current national pay line. In establishing its locality pay, however, we run the risk of creating three pay lines for one grade in a given area.

In short, under your bill as it is written two GS-9's could be earning different salaries in the same locality. We believe that locality pay should be the same for all in the particular locality. A major flaw in the bill is that it does not address pay equity. In fact, through the use of pay relatives in three separate occupational categories the bill may serve to perpetuate and reinforce pay inequities which are commonplace in our society.

Another question raised by the bill is the concept of pay relatives. While pay relatives will grant immediate increases to more than 500,000 Federal employees, they do not truly address pay comparability. As I explained earlier in my testimony, we are very concerned about the pay gap. We are concerned that a half measure, such as pay relatives, might take the pressure off to reform the system but it would only act as a band-aid.

Mr. Chairman, pay is perhaps the issue of most concern to our membership. The situation has become so volatile that it may explode in our faces. Throughout the world public service is viewed with pride and honor. People want to work for their government, and accordingly they are compensated fairly and equitably. We must work to implement a pay system in America that attracts the best people into public service.

In the fiscal year 1991 budget the President hints at pay reform by designating a mere $328 million toward a pay package. However, none of this money is newly allocated. All is absorbed by the agencies. In the past the administrations have said pay reform must be revenue neutral. Now they say pay reform must save money. We cannot enact meaningful change without spending money. President Bush has praised the service, and it is time to see if the pledge to reform the Federal pay will actually provide Federal employees with fair and comparable pay. The time to implement change is now. With the "quiet crisis" and the brain drain we cannot afford not to pay Federal employees fairly.

I want to commend you again, Mr. Chairman. We really appreciate your attack on this problem, and if you have any questions, I am here to answer them.

Chairman Glenn. Thank you very much.

Mr. Tobias, representing the National Treasury Employees Union.

TESTIMONY OF ROBERT M. TOBIAS, NATIONAL PRESIDENT, NATIONAL TREASURY EMPLOYEES UNION [1]

Mr. Tobias. Thank you very much, Mr. Chairman. I really just have a couple of remarks to supplement what has already been said by my colleagues.

I want to thank you very much, Mr. Chairman, for introducing this legislation, and particularly for not yielding to the pressures that have been increasing in the Congress to create a patchwork resolution to this very serious problem. I know there are members of Congress who have come to you and said fix this or fix that or fix something else, and instead what you have done is put together a bill which will attempt to satisfy all agencies and all employees, and we really appreciate the fact that you have stood up to this pressure and introduced this legislation.

I think it is generally accepted that the current system is in fact in shambles on a national basis. We are 28.6 percent behind the private sector, and it is worse in many localities. It is generally accepted that we cannot recruit and retain employees in the major high cost areas of the country. For example, in one area, in Manhattan, in New York, 50 percent of those who are recruited by the IRS dropout before their training is completed. In San Francisco a Customs inspector is paid $16,000 to start and a police officer is paid twice that. And what we have seen is that there has been some attempt to deal with the problem through special salary rates. Some 10 percent of those employees in the Federal Government are now on special salary rates.

We have a special program for the FAA and a special program for the FBI. So there is general acknowledgement among everyone that the problem is breaking down and that the public is not being served by this pay system. And certainly there is a real pressure upon those who are currently employed. They believe that they are not fairly paid.

Your bill, Mr. Chairman, recognizes a very critical fact and that is that any new system of pay cannot be budget neutral. More money is needed, and a new system, in addition, has to take into account the cost of living and the cost of labor differences in the various parts of the country, and your bill does that.

Your bill I think also, Mr. Chairman, has the correct formula, in that it requires an automatic across-the-board annual increase supplemented by additional pay by localities. Basing an annual increase on the ECI is fair and it has to be automatic. We cannot have a system which is controlled by the President because it is subject to gross abuse and it has been grossly abused.

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[1] See p. 156 for Mr. Tobias' prepared statement.

And frankly, Mr. Chairman, I was very disappointed by the Administration's proposal that was brought before you yesterday, which is essentially a pay-for-performance system. Mr. Chairman, we have been performing since 1977 without any compensating pay. That was the last year we were comparable, and it is now difficult to trust the administration to create and implement a fair and just pay-for-performance system in light of all that has happened in the past.

But, Mr. Chairman, we do have some questions about your bill, primarily in the area of the pay relatives. The locality adjustments under your bill would be determined by the use of pay relatives which would compare categories of non-Federal pay within a given geographic area to the national non-Federal average for those categories. Those areas with non-Federal pay levels above the national average would be entitled to locality adjustments. Areas below the national average would not be faced with any decrease in pay and would continue to receive annual increases to the Employment Cost Index.

We believe that this latter is an important feature of the bill, but in the areas of the country where private sector pay is the highest the proposed system will not factor in the 28 percent Federal to nonfederal pay gap, since it only compares Federal pay within the locality to the national average of nonfederal pay. Thus this bill gets away from the concept of comparability and doesn't close the current pay gap. I would much prefer to see a system that compares Federal pay within a locality to the nonfederal pay and sets out to make up the difference over a period of time. We certainly don't expect that the existing pay gap and localities is going to be closed within one year or two years, but we do certainly support the concept of closing that gap over a period of time.

Now, another concern I have with the locality adjustment portion of S. 2274 is that not enough localities will initially qualify for the adjustments. In addition to the problem of comparability, I think it is politically necessary, both as far as winning support for the locality pay from Federal employees as well as members of Congress. I also am extremely concerned, Mr. Chairman, about the management control of the Federal Pay Council. NTEU served on the original Federal Employees Pay Council, and frankly, it was a bust. It was controlled and dominated by the management group. We attempted to work with the management group and it didn't work. And I believe that this pay council as conceived with the 6-to-3 management majority would have a similar fate. And the tasks that have been assigned to the pay council are very, very significant, boundary setting and so forth, and we believe that if this pay council is to perform it should have an equal representation from management and labor rather than the disproportionate representation that is currently designed in the bill.

But all in all, Mr. Chairman, we believe that the bill is a very significant first step toward significant pay reform, and I would like to thank you for this opportunity to comment on the bill and to emphasize that NTEU is serious about enacting comprehensive pay reform legislation this year. We are ready to educate, to lobby, no negotiate and do whatever else it takes to bring the efforts undertaken by you and Congressman Ackerman in the House to fruition. We look forward to working with you on this most critical endeavor.

Thank you very much, Mr. Chairman.

Chairman GLENN. Thank you very much. I would like first to ask you—I am sure you have analyzed the reports of what will probably be in the Administration proposal, and I say probably, because we have had a long and disappointing track record from the Administration on not submitting it when they said they would submit it, and I addressed that some yesterday. And so we got tired and put our own bill together and we are still awaiting that.

Now yesterday, Ms. Newman told us we can expect that within a week or so, but wasn't very definitive on it. But in the Washington Post this morning there is a story, it begins on the front page, and in the Washington times there is an article here about yesterday. A good question here, "Where is the beef?" That is the question yesterday on how are we going to pay for this thing, and where the money is going to come from.

I made myself very clear yesterday that I am not in favor of scavenger hunt financing for civil service. I just don't believe that is right. And if we cannot set up a more decent system than that, then something is wrong, and I will just send that little message over this morning to help Ms. Newman in her discussions with OMB when she tries to put this together, because I understand this financing bit has been the major stumbling block as to why we don't have the Administration proposal before us this morning.

But, with the newspaper reports of what is probably going to be in this, which went a little bit beyond, I believe, what Ms. Newman said yesterday, so they are releasing some information on it anyway, with what you know about it, are there parts of the Administration bill that you favor strongly over what you have seen, or do you think we should add to it, or how do we get the best piece of legislation?

Are there things in their bill that you have heard about that you think are very, very good, or very, very bad, either one?

Mr. STURDIVANT. Well, Mr. Chairman, I think that—I guess we are still trying to find out, you know, what they are going to do versus what they say they are going to do. I served on that pay task force, along with my other colleagues, and I think that the good faith efforts—I think that that was a good process. I think that we basically identified some problems. I think that there was basically an understanding that the policy needed to be established to deal with this pay problem and then the policy makers would have to have the responsibility to fund them.

I think that those good faith efforts from Ms. Newman probably have run up against the efforts of the Office of Management and Budget to basically cut the budget and to continue the same process of taking it out of the hides of Federal workers. We see the proposal on health benefits, and this is more of the same. The one area that I read about basically on the pay for performance, we have been down that road before. We had a serious discussion about that at the pay task force and even the managers, even the people under that particular process now don't like it. You can't define it, you can't measure it, and it certainly is no way to try to deal with the serious pay problems that we have.

So from what we have heard coming out of the Administration, they don't want to fund it, they want—the areas are not broad enough, and some of the other proposals, I am just really disappointed, because all of us spent a tremendous amount of time on that task force. We are all very busy people. We spent a lot of time on that task force trying to forge some basic principles and I just don't see those principles being adhered to in the Administration, from what we can see is coming out of the Administration.

Chairman GLENN. Mr. Peirce, do you have comments?

Mr. PEIRCE. Mr. Chairman, I think I have to say it goes right back to the budget. In the task force the statement was made that anything we come up with should be revenue neutral. It is impossible to address pay reform in a meaningful manner and have it be revenue neutral. Now we are even down to the point of saving money as opposed to pay one form being revenue neutral. I don't think you can come out with a pay reform bill that is going to address equity with the private sector with those kind of parameters, and that is their dilemma.

Chairman GLENN. Mr. Tobias.

Mr. TOBIAS. Mr. Chairman, I think that in 1970 when the current bill was enacted, Congress attempted to remove the politics from the pay setting process. And what we found is that presidents ignored the language and put politics back into the pay setting process. What I see is the fundamental gist of the Administration proposal is not to remove politics but to put more in. Because the gist of the Administration bill is to reserve more power to the President, not less, power to determine how people will be paid in terms of performance, power to determine whether pay will be granted based on surveys, the power to define and determine the localities in which pay may be added on.

So I think that that is where the fundamental disagreement will be occurring. And I would urge, Mr. Chairman, that that be resisted and that Congress continue its quest to remove the political process from the pay setting process and not make Federal employees take the burden for political policies for which they have no responsibility.

Chairman GLENN. Let's talk about locality pay a little bit. Let me back into this a little bit. Mr. Peirce, you mentioned about GS-9s, that you couldn't imagine GS-9s sitting side by side getting different pay scales. Don't we do that now? We have special pay now, specialist pay for certain things in effect. That is different pay, GS-9s sitting side by side, and the fact that somebody has a GS rating of a certain kind doesn't mean necessarily that—let's say a biomedical researcher GS-9 at NIH with all that training, but starting at GS-9 shouldn't get maybe more pay than a GS-9 administrator or something next door for which you might have many more applicants for that job; isn't that logical?

Mr. PEIRCE. I agree that under the special pay process right now that can happen, but that has created one of the problems. If you go back to the classification system and the placement of a career on the grade line, a GS-9 is a GS-9 and should be getting the same pay. So where we have got out of that track is in the so-called special pay schedule areas. And it has created all kinds of problems.

Chairman GLENN. Well, for instance?

Mr. PEIRCE. Well, the places where it has been applied is where, in essence, that we have a shortage of certain personnel. For example, secretaries, it could be a professional, an engineer or something like that. So we established special pay rates for those individuals because of the scarcity in that area. And there is some justification for that.

Chairman GLENN. Well, that is what we are trying to do with the whole bill is to be competitive with the private sector, and that is the reason for these adjustments, whether it is the way I have proposed to adjust them, or Connie Newman, or we wind up with a combination of both. But that is the problem. We are not getting the people sometimes we want because we are not competitive for the local area and we are trying to make it so we are competitive. Is that wrong?

Mr. PEIRCE. Well, as we read the bill the way it is now, we would be doing this both on the locality pay as well as the special pay area, and that is going to compound the problem. That is what we are addressing as far as the locality pay side of it.

Chairman GLENN. Well, locality pay would be more a general reflection—as I have looked at this—locality pay would be more of a reflection of just the fact that, as we pointed out yesterday, or it was pointed out yesterday, it is a lot cheaper to live in San Antonio than it is in Boston, two of the cities that were used in the study. Certainly we can take that into account with locality pay.

Now, what you may have to pay in a particular area for specialist pay may be in addition to that, wouldn't it?

Mr. PEIRCE. I agree. But the way we read your bill on locality pay, you are going to break that down into certain categories that were originally under the PATC so one work group over here might be getting more than another group. It is not locality pay across the board as we see it. That is what we recommend—is locality pay across the board for all employees in a particular locality. Then the special pay in the areas where we have difficulty of filling positions, or something basically the same as it is now would apply.

Chairman GLENN. Do you see any problems with separating these systems out on—I guess it would be management or the higher rated people that would be based on a national scale as opposed to other people being on a more localized scale? Mr. Sturdivant?

Mr. STURDIVANT. Mr. Chairman, we did raise some questions about that. We see that—and during the task force we raised some questions about that—we see that as a possible problem because of the fact that a lot of women and minorities are concentrated in those areas, in those levels, and that under the existing national pay scale they have done better. They have tended to do better than we feel that they could do if placed on a pure locality basis. One of the things I would like to point out, this whole issue of locality pay, you know, prior we have summarily rejected this proposal, but we decided after taking a look at the Volcker Commission report, the Wyatt Report, and we basically said that perhaps there is some middle ground. Certainly looking at the Employment Cost Index, perhaps there is some middle ground that we could move to this concept without doing damage to the people that we represent.

Let's face it, the Federal pay system is so bad and in such disarray that we basically took a policy position that we are going to approach this process with an open mind and try to find some way that we might be able to build consensus and reform the system. Now from what I am hearing from the Administration's proposal, you know, we are going to have the worst of all possible worlds, locality pay with no additional money in the system, revenue neutral, and also pay for performance.

And that essentially is not what we had in mind when we felt that in a responsible manner we were prepared to sit down with the Members of Congress and the Administration and discuss this issue. I think that another point that we would like to raise is that all of the reports, the Volcker Commission, the Wyatt Report, all of those reports support the concept of comparability for setting pay, but then they do go on and talk about refinements to the various pay systems addressing the cost of labor in the relative markets. So, you know, there are many factors to make this work, but we are not prepared to accept the worst of all possible worlds and call it pay reform.

Chairman **GLENN**. What do you gentlemen think should be the basis, cost of living or cost of labor in an area?

Mr. **STURDIVANT**. Well, we feel that cost of labor, basically, all of the reports that we have looked at basically talk about, and we have taken a look at the Employment Cost Index. In other words, what does it cost to get a job done in an area, in a country or wherever you are, what does it cost.

I believe that if Federal employees would have followed the Employment Cost Index this year I believe we would have gotten something around about 4.2 to 4.6 percent pay increases. So the cost of labor really is comparability. That is what it costs to get the type of job done. If we start trying to base it on cost of living, then we are going to fracture the system even more and our competitiveness and other factors, unemployment rates could come in and we just don't see that as being workable.

Chairman **GLENN**. Do you agree with that, Mr. Tobias?

Mr. **TOBIAS**. You know, I do, and I recognize that there are some locations in the country where labor costs are low and cost of living is high. In spite of that, I believe that a system ought to be based on labor costs, because I think that that is a system which is fairest overall to Federal employees, I think it is fairest to Federal management, and most important, I think it is fairest to the taxpayers.

Chairman **GLENN**. Mr. Peirce.

Mr. **PEIRCE**. I agree with that. Basically I think it is the only thing we can use and still be credible with the private sector.

Chairman **GLENN**. Did any of you say you favored—well you all favor a national pay schedule, right?

Mr. **STURDIVANT**. Right.

Chairman **GLENN**. Do you see any problem with setting that national pay scale for white collar workers and others and having a separate way of paying for other people?

Mr. STURDIVANT. Well, you know, one of the things we have talked about, certainly, you have really got two schools of thought. You are talking about a national pay scale for some white collar workers and then a locality-based scale for other workers. And that is part of the complexities of this whole locality pay argument that we are dealing with.

When we were presenting our comments to the task force we operated on a basis that there should be a floor, there should be a minimum standard, so to speak, or a Federal employee minimum wage, so to speak, that would be really based on the question of comparability.

Chairman GLENN. Okay. And apply that nationwide no matter what?

Mr. STURDIVANT. Yes.

Chairman GLENN. Well now, is that realistic where when we had testimony yesterday that variations run as high as 90 percent between high and low outside comparable rates in industry between some place like San Antonio and Boston or whatever? So to make just one rate nationwide it seems to me is—well, I just don't see how we would do that if we were going to revise our pay system.

Mr. TOBIAS. What we urge, Mr. Chairman, is that everyone nationwide get the ECI every year guaranteed and that the studies then be——

Chairman GLENN. Up and down, if it ever goes down?

Mr. TOBIAS. Up and down.

Chairman GLENN. Would you subscribe to a pay decrease on occasion if that is warranted by ECI?

Mr. TOBIAS. What are you trying to make me gag here this morning? [Laughter.]

Yes, if the ECI goes down for everyone, then, of course, it would have to go down for Federal employees as well. If we are going to live by that gun I guess we die by that gun. But the critical thing are the locality add-ons, and that is where the real work of closing the pay gap would occur. Because if you compare what a Federal employee receives in the defined localities, that is where the 90 percent variation would occur and that is where the work at closing the gap ought to occur.

Mr. STURDIVANT. Well, Mr. Chairman, we have had that experience and just to, you know, give you, I guess we feel a little more comfortable with the process because our union—and certainly Jim Peirce and I represent blue collar workers—and the Federal wage system, if the Federal wage system would have been left alone, in other words if it would not have been capped and would have let the market forces—not market forces, but the prevailing rate forces operate, then we would have done fairly well for the blue collar employees that we represent.

Once again, what happened, for the most part—once again what happened was, of course, the blue collar people were capped so their wages were artificially depressed, even considering what they would have gotten had that system been allowed to work. But we have had that experience, the situation out in Tucson, Arizona I believe where the copper mines basically went bust and the wage line was decreasing. Now I just have to say though that we were able to work with members of Congress and also the Office of Personnel Management and what we have in that process now is something that we call a "save pay" provision so that our folks do not lose money when the pay line collapses.

But we have had some experience under that system. What we have talked about, certainly the ECI, the other area you have to take a look at is the question of how many localities. And we have taken a look at that and we really, if the system—if you don't have too many localities, that question, we simply do not see the possibility of people being hurt. And in fact we feel that everyone will pretty much benefit under that process.

Of course, we don't want as many wage areas as you have in the blue collar, and you get into the area of what is a wage area under white collar, what is a locality, and in some instances it could take into two or three states. But certainly with the union and management working very closely in that process we think that is a process that could work.

Mr. PEIRCE. I think, Mr. Chairman, one thing in talking about the national pay line, I made one statement, and it is in our testimony, to the effect that we are looking at actual data that is a year old by the time we get around to implementing the pay line. At least that is the way I read it. It is collected in November and reported in November, so whatever the ECI is and so forth can be reported in the budget side of the thing.

It is the same thing we had with the current system. The data ended up being reported, as I recall, as of February. By the time we get the pay increase with the November date it is practically a year old. Now, the other thing is any pay line we strike is not going to be at the top or at the bottom. Normally it has been more of a mid-line. And sure, there are going to be some inequities from the standpoint of locality on the low end of it, but I don't think there is any way to devise a pay system that is going to provide anything very scientific and precise. The majority of the Federal employees and those that are impacted are going to be at about where they should be or below it when you start looking at the locality side of the process.

So that is the reason we want the national pay line, to establish a floor. And as far as the locality survey, adjustments should be given to all grades, employees, occupations and so forth in the locality area and let the special pay take care of the tough problem areas.

I might add one other thing that is causing a problem with us, and it goes back to the classification system. The classification system actually sets pay relative to the pay line. And we have not looked at the classification system for many, many years. And we have advocated very strongly that we should study occupations and careers, because they have changed over the years. Many of them need updating. In many areas if we do this the placement of a particular career on that grade line could well move up 1 or 2 grades. We can do what we are doing now, but unless we do update the classification system, we still may not correct all the inequities unless we actually look at the classification side of it.

Chairman GLENN. Yes.

Mr. STURDIVANT. But, Mr. Chairman, I think that certainly we appreciate the role you are playing in this, but I think that probably the most important, certainly significant role that you can play, and you already are doing that, is to impress upon the Administration to stop trying to run a scam on people. You cannot have pay reform without putting money into the process. Even the budget process where they are claiming to provide differentials for a couple of cities, the amount of money that they are putting in is meager, and then they are telling the agencies they are going to have to take it out of their operating expenses. And that is simply—you know, we are all wasting our time in this process if the Administration is not prepared to come clean and admit that you cannot reform the Federal pay system without putting additional money in it. And if we cannot get that understanding and admittance from them, then we are simply wasting our time.

Chairman GLENN. Well, I agree with you on that. You cannot have the civil service that we deserve and of the quality that we need to administer a $1¼ trillion budget and you just cannot do it on the cheap. And I didn't use the term "scavenger hunt" lightly. We cannot have a scavenger hunt civil service. I think that is what they are proposing, is you sort of scavenge around and if you can find a little money here and there, well maybe we will have a pay raise in our area and maybe we won't next year because we can't scavenge something out. And I just think it has to be in a budget.

But let me follow this up just a little bit. Locality pay could go down as well as up. And I think in your statement, Mr. Sturdivant—I was just leafing back through it here trying to find the section—I think you indicated it would always go up, or words to that effect in here somewhere, wherever they were.

I see locality pay as reflecting exactly what it is supposed to be, locality pay that goes down as well as up. When you have oil patch problems in Houston like we had and the Houston economy is very low and for a period of a decade you have people you can hire and put into government jobs that are quite happy to get the job because they are at least as good or better than what they are able to do outside locally, and should the government automatically keep the higher pay scale when things are down in an area, or should it really be locality pay? And that is the question.

Okay. I don't have anything further. We may have additional questions we want to send to you from other Committee members and we hope you could respond to those so they can be part of the full Committee record, and we thank you very much for being here this morning.

Our next panel is Mr. Michael Minahan, National President, Federal Managers Association; Ms. Helene Benson, President, Professional Managers Association, and Ms. Dorothy Spinks, President, Federally Employed Women.

We welcome all of you this morning, and Mr. Minahan, if you will lead off we would appreciate it.

TESTIMONY OF MICHAEL E. MINAHAN, NATIONAL PRESIDENT, FEDERAL MANAGERS ASSOCIATION,[1] ACCOMPANIED BY CATHERINE LEYSER, CHAIRMAN, PAY REFORM TASK FORCE

Mr. MINAHAN. Good morning, Mr. Chairman. Thank you for the opportunity to provide the views of the Federal Managers Association on S. 2274, the Federal Pay Comparability Reform Act of 1990.

The Federal Managers Association considers pay reform vital to improving the health of our Nation's public service. At this point I would like to thank you on behalf of all the members of FMA for your work, your concern, and your courageous effort in taking this important first giant step in introducing this bill and holding today's hearing. We in FMA applaud your courage in undertaking this effort.

Last year FMA established a task force of our members to study the issue and prepare recommendations. With me today is Ms. Catherine Leyser, who chairs FMA's Pay Reform Task Force, along with our legislative counsel, Mr. Bruce Moyer.

As you know, the Federal Managers Association is a professional organization of nearly 20,000 managers and supervisors in agencies and departments throughout the Federal Government. Pay reform is a matter of deep interest and concern to our members. They are concerned not only because they personally suffer the effects of the 28 percent pay gap, but also because of the severe impact the gap has had upon their ability to effectively manage the performance of the Government's work. One of FMA's primary goals is increasing the efficiency and effectiveness of the Federal work force. An equitable, well-structured pay system is essential to the Government's capacity to attract and keep employees who can provide the high quality of service the American people deserve and expect.

The fact that the general schedule no longer provides management with that tool is well documented and undisputed, and we will not dwell on that this morning. Rather, we would like to comment on your legislation. FMA's position is that pay reform is a necessary and essential investment in a quality Federal work force. We welcome and support your bill and believe it will address many existing problems.

As I said earlier, FMA's task force is chaired by Catherine Leyser and I would like to ask Cathy to address some of the details of FMA's comments to the bill.

Chairman GLENN. Fine. Ms. Leyser.

Ms. LEYSER. Good morning, Mr. Chairman, and thank you. Last January we made several recommendations and I would like to talk about them today in relation to your bill. The first one has to do with pay comparability. The principle of equal pay for equal work must be maintained, but we believe that it must be expanded to recognize the wide variances in cost of living and cost of labor throughout this large and diverse country. The fact that most Federal job recruiting is done in competition with local employers based on occupation needs to be recognized. Adjustments must be based on locality, as Senate 2274 provides. Until now, Federal job classification and pay-for-performance systems frequently have been misused to compensate for low base salary rates in certain areas. Locality pay differentials ought to help prevent future abuse of the classification and merit pay systems.

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[1] See p. 171 for Mr. Minahan's prepared statement.

We concur with the legislation's approach in the use of the Employment Cost Index as a national pay comparability yardstick, as implemented by the use of local pay relative measurements.

Movement to a locality-based system for all occupations will not be without its problems, however. First, we need to ensure that no one actually loses money due to the vagaries of implementation at this time. We also recognize that difficulties may exist in certain areas of the country where very few like nonfederal occupation groups exist for comparison with Federal counterparts—scientists in the desert, engineers in rural Indiana. This problem might be overcome through a national pay scale for that occupation with locality-based adjustments for differences in the local market. We do, however, have some reservations about OPM's expected proposal for a national pay schedule for all professional and administrative employees. We may get into situations where supervisors get paid less than their employees and we cannot recruit into those areas. We believe that whole area needs more study.

We also support your proposal to include state and local governments in the groups with which Federal pay is compared. Many Federal departments and agencies are losing employees to similar positions in state and local government because of the higher salary structures there.

We agree with the legislation's approach toward considering locality-based adjustment as part of the employee's basic pay for purposes of retirement, life insurance, severance pay and lump sum leave payments. We believe this is an important component in any viable pay reform package. A person ought to be able to retire and live in comparable style in the same area where they worked.

We should note that improving competitiveness of the Federal Government in the labor market ought to rely on improvements in Federal pay and benefits. The Federal Government was once an innovator in developing benefit packages. Now it has fallen far behind large private sector employers in providing those benefits. One of the great myths, Mr. Chairman, about the Federal work force today is that Federal employees enjoy a level of benefits not enjoyed by the private sector. The reality is that Federal benefits lag far behind. We would like to dispense with that myth for once and for all.

Federal benefits reform is more than a matter of simply funding, it is a matter of innovation and creative response to today's labor market as we move into the work force 2,000. Prospective Federal employees are gauging the attractiveness of the Federal Government as a potential employer by what the Government has to offer in terms of health insurance, daycare, retirement and other benefits. It is well recognized that a smaller pool of educated job applicants in the 1990's will exist. This will require the Government to be more competitive in the employee benefits packages it has to offer. Thus, pay reform and Federal employee health insurance benefit reform are not exclusive issues. They are part of the larger picture of increasing the Government's capacity to compete in an increasingly tight labor market in the decade ahead, to attract the best and brightest to the Nation's public service.

Let me add that the pay reform package must be fully funded. The idea that agencies, so strapped already, must absorb pay reform is outrageous and self-defeating. Agencies are already stretched to the limit. We believe that pay reform will eventually pay for itself in terms of recruiting and retraining costs. However, establishing it without up-front funding is tokenism at best, and it will impede our ability as managers to manage the mission of the Government.

Let me turn to the need for a supervisory and managerial pay differential. Supervisors and managers in the Federal Government are responsible for managing billions of dollars in resources, programs, and services. Yet they frequently do not receive the support, recognition and compensation commensurate with that level of responsibility. Pay reform ought to correct this deficiency. The Federal Government is experiencing increasing difficulty in attracting and retaining top quality supervisors and managers. This problem will only increase in the coming years as a greater number of managers retire. Though I am not near retirement age, I see there aren't a lot of people out there to take my place when I will be ready to go. This concerns me.

The recruitment and retention problems in the supervisory and managerial ranks are caused, in some respects, by inadequate pay levels. In some areas supervisors receive the same or less pay than those reporting to them. Mr. Chairman, we do not intend to portray financial reward as the major reason for pursuing a career in Federal Government. We believe, however, that the Government must begin to provide more incentives to attract and retain highly qualified and committed supervisors and managers. The added responsibilities of supervisors and managers are many, as are the risks from increased personal liability and stress.

Supervisors and managers are often expected to take work home and/or put in extra hours without compensation. Although this may not be a stated policy, it is part of the corporate culture in many agencies. Some supervisors and managers have to forfeit annual leave at the end of the year because they are unable to take off the time to reduce their carry-over balance to the maximum 240 hours.

In response to the above, the Federal Managers Association has proposed the following incentives for supervisors and managers: a guaranteed 10 percent salary differential in comparison with nonsupervisory staff, authority by supervisors and managers to carry over to a subsequent year up to 360 hours of annual leave, and an additional 10- to 15-percent differential for service years as supervisors and managers in connection with creditability service for retirement purposes.

Additional incentives and benefits are possible, and we look forward to continuing to work with you, Mr. Chairman, and your staff in this regard.

As far as pay for performance, we are pleased to see that this legislation proposes to study the linkage of all or parts of pay adjustments to employee performance. We are not opposed to pay for performance principles. However, we recognize that they have not been successfully implemented in the Performance Management Review System for GM employees and we caution against expanding a system that is not working. Pay for performance needs flexibility for the agencies and it needs to be fully funded. We are very concerned about OPM's proposal to go directly into expanded pay for performance, because it is not working now.

In closing, the Federal Managers Association fully supports the aims and purposes of Senate 2274. With the improvements we have outlined here today, we believe enactment of this legislation will better enable the Nation's civil service to meet the challenges of this decade and beyond.

Mr. Chairman, this concludes my prepared statement. We will be happy to respond to your questions. Thank you.

Chairman GLENN. Thank you very much.

Ms. BENSON.

TESTIMONY OF HELENE A. BENSON, PRESIDENT, PROFESSIONAL MANAGERS ASSOCIATION

Ms. BENSON. Mr. Chairman and members of the Committee, the Professional Managers Association appreciates the opportunity to appear here today and provide our views on the proposed Federal Pay Comparability Reform Act of 1990.

PMA is a national association of GM-13 to GM-15 PMRS managers. We want to thank you for addressing the problem of low Federal pay by introducing S. 2274. We are hopeful that through your leadership there is a chance for meaningful pay reform this year. I would like to summarize my statement and request that the entire written testimony and attachments be made part of the record.[1]

Chairman GLENN. All of your statements will be included in the record in their entirety if you give the abbreviated versions.

Ms. BENSON. Okay. PMA agrees with the principle of pay comparability even if that principle is redefined in some ways. Whether comparability is achieved through paying national average rates, as the present system was designed to do, or locality-based pay adjustments, and there are problems with either approach. We think that pay comparability is fair to employees and fair to the taxpayers.

We are pleased to see that S. 2274 has not abandoned the principle of pay comparability. We also believe in the principle of equal pay for substantially equal work and the principle of internal equity among Federal jobs. We would like a new Governmentwide pay system to incorporate and balance these three principles. We have been very concerned by the efforts in the last few years to solve individual pay problems in isolation. Last year Congress raised the pay of Federal executives. In 1989 approximately 11 percent of the Federal work force was covered by special pay rates. Various legislative proposals have been made to correct the pay problems of specific agencies and groups. Undue emphasis on improving the pay of entry level positions and expanded use of special pay rates at the expense of the rest of the work force simply highlights the breakdown of the Federal pay system.

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[1] See p. 179.

PMA believes it is important to reform Federal pay for the entire Federal white collar work force, keeping in mind the three principles of comparability, equal pay and internal equity. We think it would be very unwise and unfair to confine pay reform efforts to entry level positions, hard to recruit positions, a few high cost areas, a few occupations and the SES. Such a patchwork approach would violate the principles we think should guide the setting of Federal pay and such fragmentation of the Government's pay system will only delay the proper solving of the pay problem.

Regarding S. 2274, first, while PMA would prefer that the locality-based adjustments be related to non-Federal salaries, we recognize that it may take time to implement such a system and consider the locality-based adjustment approach in S. 2274 a satisfactory interim step in order to effectuate some pay relief by October 1991.

Second, we like the idea of boosting Federal pay nationwide annually according to increases in the national pay index, whether the national index to be used is the Employment Cost Index or another appropriate index covering only white-collar employees.

Third, the pay comparability principle originally adopted in 1962 was never really implemented because there is not an automatic mechanism for the increase. While S. 2274 is an improvement in that, according to the section by section analysis, pay increases can be prevented only if the President imposed national wage and price controls, if this is the intent we would like the language to be more precise on that point to make it clear that is the only situation in which pay increases can be prevented. But nevertheless, we prefer an absolutely automatic mechanism for the salary increases along the lines of Social Security increases that can be overturned only by law.

Further, we agree wholeheartedly with Section 5302[b], which provides that locality-based pay adjustments shall be part of basic pay for purposes of retirement and other benefits. However, in order that employees stationed in areas with high locality pay adjustments are not discouraged from transferring toward the end of their careers with either no or a low locality pay adjustment, we suggest that employees who have spent a substantial portion of their careers in an area with the high locality adjustment, say 20 years or so, and may naturally wish to retire there, have the amount of that adjustment included in their pay for purposes of calculating their pension, regardless of where they are stationed in the last few years of their careers before retirement. This will guard against punitive transfers of employees toward the end of their careers. You may also wish to provide a similar safeguard against transferring employees at the end of their careers to increase their pensions.

Fifth, Section 5306 provides for a Federal Pay Council to be composed of nine members, quote, "who are not Federal employees." We suggest the phrase "who are not Federal employees" be deleted.

Sixth, Section 10[b] of S. 2274 requires the Federal Pay Council to study the feasibility of linking increases to an employee's performance. We suggest that that section be deleted. We would like to take this opportunity to share with you the views of PMRS managers, that is the GM-13 to GM-15 managers on the performance management and recognition system, the pay-for-performance system under which we are appraised and paid. We would like to make the results of our survey a matter of record with the Committee as well as the compilation we made of the specific comments. The material is attached to this testimony.

As you will note, almost three-quarters of those surveyed believe that ratings are influenced by favoritism. Despite the fact that managers are generally better off financially under PMRS than under the general schedule, only 3 percent of those surveyed believe that PMRS should be retained. PMA cautions against imposing any new pay-for-performance system on the entire Federal work force, given the low regard in which PMRS and its merit pay predecessor have been held, until a corrected PMRS system has been tried and found to be successful. In any case, we believe the entire amount of an annual comparability adjustment are due all who are performing satisfactorily. Those who are not performing satisfactorily for any length of time should not be on the Federal payroll.

Finally, PMA has two recommendations which we urge the Committee to include in S. 2274. First, PMA recommends that any pay system adopted provide a pay differential for PMRS managers. Those who take on the responsibility of management should receive higher pay than those of the same grade without such responsibilities. Second, we also suggest that PMRS managers be allowed to carry over from year to year more than the 240 hours of annual leave presently authorized. SES members may carry over an unlimited amount of annual leave. We suggest that PMRS managers be permitted to carry over 480 hours rather than the presently authorized 240. Adding 30 days to the present ceiling will help diminish the need to go through the administrative complexity of restoring leave balances when approved leave cannot be taken due to the press of business, as well as to alleviate the all too common injustice of such managers forfeiting annual leave that cannot be carried over.

We will be happy to work with you and ~~your~~ staff on pay reform in order that the law enacted will achieve its objective.

Chairman Glenn. Thank you very much.

Ms. Spinks.

TESTIMONY OF DOROTHY I. SPINKS, PRESIDENT, FEDERALLY EMPLOYED WOMEN [1]

Ms. Spinks. Good morning Mr. Chairman and distinguished members of the Committee. I appreciate the opportunity and the honor of presenting my testimony here. You have already received the larger testimony. I will be brief, and if I miss anything, please ask me questions.

FEW is a private, nonprofit, nonpartisan organization founded in 1968 to advocate equal opportunity and foster potential opportunity for working women in the Federal sector. We are an international membership organization.

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[1] See p. 193 for Ms. Spinks' prepared statement.

Your legislation, Mr. Chairman, has responsible starting points in this pay reform process which everyone has been agreeing is necessary. We applaud your efforts to include a mechanism to ensure that annual pay adjustments for Federal employees are comparable to those of non-Federal employees, and use of the Employment Cost Index, ECI, will certainly mandate action to lessen the current 28-percent disparity between Federal and private sector employees.

Equally important is the provision of authority to the Office of Management and Budget to designate up to 100 critical positions Governmentwide to search out top-notch individuals. We will look for the development of regulations which govern discretion in this area to safeguard against misuse. FEW strongly supports the establishment of a Federal Pay Council to develop the parameters of implementing a locality-based system. We believe that it is crucial that the interest of all employees are represented on this nine member working group and we would request that at least one member of the council represent the diverse interests of Federally Employed Women. Federal female employees are the fastest growing segment of the Federal work force and are expected to be in the majority by the year 2000.

FEW also supports strongly the concept of locality pay to address the widening wage gap between Federal and non-Federal employees. However, we are concerned with the pay relative system as outlined in the legislation. In our opinion a process which compares average salaries for non-Federal employees nationwide is a starting point. However, we believe that meaningful pay reform must first reduce the gap between Federal and non-Federal employees.

This pay relative system could ultimately result also in Federal employees receiving different adjustments within a locality and that is a concern. Certainly occupational categorization will be necessary in order to compare them. However, rather than carry over the pay adjustments according to job categories, FEW believes that an average percentage adjustment should be provided to all employees within a defined locality. The high cost of living affects everyone equally.

Additionally, we are concerned with the concept of linking either annual or locality adjustments to performance. That is of great concern to us. We ask you to consider the fact, for instance, that there is really no evidence that suggests that the absence of this linkage to performance is any way responsible for the current wage gap between Federal and non-Federal employees. Secondly, this linkage would be inconsistent with current pay practices. There are all the systems for evaluating performance. In addition, the Federal personnel evaluation system was not designed for the purpose of the linkage.

As you are aware, we have long been an advocate for pay equity, comparable worth, and in our study we have become well aware that the wage gap exists definitely with regard to race. According to the latest Bureau of Statistics estimate, women can on the average expect to earn approximately 70 cents for every dollar earned by men. That figure is considerably less for minority women. For instance, according to OPM's statistics released in September of last year, white men in white collar occupations earned an average of $37,309, while African American women earned only $22,320, 15,000 less.

A portion of the wage gap is more than likely attributable to sex and race-based wage discrimination and, thanks to your efforts, Senator Glenn, the General Accounting Office is currently studying the Federal pay and classification system to identify any such discrimination.

I must say that, however, any attempt to fully address pay equity at this time would further complicate the task at hand. These are almost two separate elements. One needs to be addressed and the other needs to be addressed just as well. We are confident that the Federal Pay Council and this Committee will maintain good contact with GAO and look at the study and the conclusions which are reached. In any way we would be happy to help the council and this Committee if we can be of assistance.

We applaud your efforts, Mr. Chairman, to initiate consideration of this complex and difficult problem facing the Federal Government. Serious pay reform must provide comprehensive and constructive policy to reduce the wage gap between Federal and non-Federal employees as soon as possible, and we recognize the costs of providing a well qualified work force. They are not small. Thank you sir, very much.

Chairman GLENN. Good. Thank you all. Some questions on this. Let's start with the pay for performance, or merit pay, as Ms. Newman described it yesterday.

You all seem to be very cool to that, and I am not quite sure why. That is the way business and industry operates. It is very basic to most business and industry. Why isn't it a good idea in Government? What is wrong with it? Ms. Benson?

Ms. BENSON. We are not opposed to pay for performance, but first of all comparability increases are separate from the merit pay increase or within-grade increases, and I don't think we should mix them up.

Secondly, while we are not opposed to the idea of pay for performance in general, in fact our members support the concept, the two systems that we have had in the Government for PMRS managers, the PMRS system presently in effect and its predecessor have failed miserably. We have gotten more complaints about this system than anything in my experience in Government. Accusations of favoritism, there is not enough money. I mean, when people are actually financially better off and only 3 percent want this system continued, you have to wonder why.

Chairman GLENN. Well, let me be devil's advocate here. Obviously they would rather have automatic pay increases and everybody gets it and everybody is happy, but is that the way you run the best, lean, mean, efficient Government? Eliminate mean there, we will just make it lean and efficient.

Ms. BENSON. They are better off under PMRS financially than under the GS system and they still said they did not want PMRS continued.

Chairman GLENN. Well why? They just don't want to get rated, or why?

Ms. BENSON. No.

Chairman GLENN. It is what we do in every business, every job in this country outside of Government.

Ms. BENSON. It is because there was not enough money for the system, because there were forced ratings, there were accusations, constant accusations of favoritism, the ratings are not accurate. They wanted accurate ratings more than they wanted the money, and they didn't feel that their ratings were accurate. They felt that the spirit of cooperation was killed, that people were pitted against one another. I mean, there were any number of complaints.

Chairman GLENN. Isn't that sort of entrepreneurship or free enterprise in action? It is a competitive situation.

Ms. BENSON. Well, not necessarily. I mean, the people I know in the private sector who have their performance standards, but if you sell so much whatever you get a raise, when they sell so much they get the raise. That is not so in ours. In our performance standard if you meet them or exceed them you are often said not to. You are simply not rated accurately. That was the biggest accusation.

Chairman GLENN. Well is that any different than in any other line of work, whether you are in Government or outside?

Ms. BENSON. I haven't heard those accusations elsewhere.

Chairman GLENN. We have some reporters here this morning. I don't know whether at their newspapers everybody in a certain category gets paid exactly the same and they are not considered for promotion on performance, or their pay isn't related to performance or extra work that they do or extra editorials they write or columns they write or research that they do. Aren't all these things part of what the pay scale should be in Government or out of Government?

Ms. BENSON. Well, 86 percent of our members said that they agreed that pay should be linked to performance but they said that the system under which we were rated did not link pay to performance. That is what we are saying.

Chairman GLENN. Well, why didn't it?

Ms. BENSON. Well, the standards weren't accurate. There wasn't enough money. Favoritism was shown to people. There wasn't enough money to give everybody the ratings that they deserved. So if they couldn't rate you as exceeding your standards, whether you did or not you were said to have merely met them.

Ms. LEYSER. The problem, Mr. Chairman, is that everybody has to fit into the curve. You only can have so many at the high end, and so many at the low end and it doesn't matter how people perform, it is how much money is there and how are we going to spread it out between them.

Chairman GLENN. You are saying you were forced to grade on a curve and the situation doesn't always fit the curve?

Ms. LEYSER. Right. And as managers it is really hard to deal with that.

Chairman GLENN. Well, that is a valid criticism.

Ms. LEYSER. That is why we say let's study it more, because we think it could be an effective system.

Chairman GLENN. Well, should we then not throw out the system but throw out the curves and operate from a more realistic basis then if that is what your complaint is?

Ms. **Spinks**. That is true for the pay for performance thing but not necessarily for comparability. Those are two separate things.

Mr. **Minahan**. But I think part of the problem, Mr. Chairman, is the fact that performance based pay won't work as long as there is a significant pay comparability gap, because the system has been manipulated by the agencies, and even the raters in some respects, because there was no other way to get their pay up. So it was in some cases shared. Every year it went round robin until everybody got a little piece of the action. And unless we fix the pay comparability gap, unless we get back to comparability——

Chairman **Glenn**. Now, overall pay or pay comparability? We are talking about two different things.

Mr. **Minahan**. Well, I am talking about pay comparability, because I think the system, the performance based system was manipulated as a result of the problems with the pay gap. And there were all kinds of shenanigans going on with favoritism and sharing ratings, and it really didn't matter much how your performance was in a given rating period as much as it wasn't your turn this year. So it was a disincentive. It was the biggest morale killer in my 36 years of Federal service.

Chairman **Glenn**. Well, I agree with you that nothing is going to replace having enough money to make an adequate pay scale. Then we start worrying with the equities of it here to a finer degree than we can now, and where the pay scale has been down enough, where you have round robin pay increases as you are talking about, or whatever they are, where if I got one this year I automatically won't get one next year, somebody else has to have it, is that the way it works?

Mr. **Minahan**. That is essentially right.

Ms. **Benson**. Sometimes.

Mr. **Minahan**. It has hurt the team effort in agencies at the management level, and how can we possibly expand it and implement it at the lower grade levels if the managers don't buy it now for themselves?

Chairman **Glenn**. Okay. Well, I agree that the basic problem is you have to get the pay up and it has to be provided in the budget and it has to be realistic and it cannot be on the scavenger hunt we talked earlier here every year or it just isn't going to—no system, PMRS or any other system, is going to work unless we have an allocation of money that is going to do the job that has to be done.

Ms. **Spinks**. One thing to consider also, Senator, is it is very difficult to rate service, very difficult. And that is what most of our Government jobs are.

Chairman **Glenn**. Well, I suppose that is true, but while providing that service you have very specific jobs that have to be done so they can be rated and compared with the private sector to see what is needed.

Ms. **Spinks**. Well, they are learning.

Chairman **Glenn**. Well, I was thinking we have gone to 65 or 68 percent service industries outside now and they operate on an entrepreneurship, a competitive basis, hire people, pay local scales to get the people they want, and I don't see that as being all that different from Government because Government is basically a service, though we have 65 percent of the private sector, or 68 percent I believe it is now, provides service jobs also.

Ms. **Leyser**. Mr. Chairman, if I may make a comment on that, I agree with you. I believe that part of the problem is that the managers have not had enough training in developing the performance standards to evaluate the service. That is another caution against just expanding it now. We have got to make sure we set up the proper evaluation criteria, then I think we could have an effective system.

Chairman **Glenn**. Some of the other things that you all have in your statements I believe on this accumulation of longer leave where you aren't able to take leave and some things like that, I don't know that we will address those with this specific bit of legislation. I am not sure that a few hours spent without compensation off the job is going to get a very fair hearing on Capitol Hill. The number of hours we put in around here I think a lot of people would be happy to accept minimum wage for the hours they put in.

But that is our own problem of organization here. And I am not sure within the agencies, when you mentioned that awhile ago and made an issue of it, I thought that that was maybe something within the agencies would show that we are not managing things properly if people have to carry that much leave over on a permanent basis forever. So maybe that is one of our problems we need to get better organized so people take their leave or they lose it, one or the other. Let's organize properly to do it.

Ms. **Leyser**. Let's get enough people, qualified people, and let's pay them well enough and we will be able to manage it that way.

Chairman **Glenn**. To do the job. Well, all right. We are coming back to the same base here. I agree with you.

Would you expound a little bit on these other proposals, you want a guaranteed 10 percent salary differential for supervisors and the increase in the leave carry over, and then another 15 percent difference for service years as supervisor or managers. Now that starts totaling up to one-fourth more pay there for a couple of things that aren't really that much related to job performance necessarily.

Ms. **Leyser**. We were looking for ideas for ways of trying to get a difference for supervisors. These are possibilities. They need some more study, obviously, but we think it is important for managers to get the support and get the pay that they deserve. Sometimes it adds 15 years to your life to become the manager.

Mr. **Minahan**. In many cases it is very difficult to attract people out of the work force into supervisory and managerial ranks because in some cases a day's overtime, a week, or a month could bridge the gap between the salary compensation in a given period. And because there isn't a significant difference in salary, we thought that there might be an opportunity here to recognize and provide some added incentive to attract people out of the ranks into supervisory or managerial positions.

It is kind of disturbing at this point that when we have significant supervisory and managerial jobs open, we do not get the same number of candidates aspiring to those positions now that we did in years past. We think that something ought to be done in that regard.

Chairman GLENN. Well, isn't it basically pay——

Mr. MINAHAN. Primarily pay.

Chairman GLENN [continuing]. More than anything else?

Mr. MINAHAN. Primarily.

Chairman GLENN. I would think that things like this, like you list here—and these are things—it is okay to list them for fringe items of consideration if you will, although a one-fourth pay increase, that is no fringe item, if you put all these percentages together here. But I think other things like change-of-station difference, things like that you also mentioned, they are not going to determine probably whether a person takes a job or does not take a job. Would you agree with that, or would you think they are important enough?

Mr. MINAHAN. I think they would have an impact on a decision, absolutely.

Chairman GLENN. You also suggest in here that we maybe take on the cost of moving and the high price of housing and contribute something to those housing costs directly; is that correct?

Mr. MINAHAN. Yes, sir. We have found that there are a lot of very talented people out beyond the beltway—let's categorize it in that respect—that won't make the move. There are significant liabilities for taking that giant step here and we think that the Government is losing as a result, missing an opportunity to bring the best and brightest.

Chairman GLENN. Okay. But I think if we start addressing this on an item-by-item basis that we have to account in your legislation for a formula for housing, a formula for how long you have to drive, a formula for gas costs in the country and so on. That is all taken care of as part of the ECI and locality pay, we are lumping that all into one thing. And so I don't think that these individual things—and housing cost would be one of the items in that locality pay. So we are not trying to address the individual items as much as we are the overall situation that would determine salary. If people take a job, okay, it is up to them to find their housing, not up to the Government to furnish housing for them.

Mr. MINAHAN. Well, we are not sure what form the final legislation is going to take, but these are some items on the table that can be discussed and traded back and forth.

Chairman GLENN. Okay. Concerns have been expressed about adverse impacts on women if clerical workers are paid on a separate schedule than professional workers.

Do you have any data to show whether this would in fact be the case, Ms. Spinks?

Ms. SPINKS. I don't have any data today. We will be glad to provide it.

Chairman GLENN. All right.

[The information referred to was not received by the time this publication went to press.]

Ms. SPINKS. But this has been a recurring theme, and when we are talking about having higher locality pay in another area, many women would never even be in the group that would be considered for a potential move, so they are losing again.

Chairman GLENN. Well what we would basically be doing now, if Federal clerical workers receive pay that is comparable to nonfederal clerical workers, would you consider that Federal workers were being adversely impacted?

Ms. SPINKS. Well, they were for awhile, but they did receive the raise, what was it, about a year ago and that has helped a great deal. The performance of the persons who have come in has been better than those we were receiving before.

Chairman GLENN. Ms. Benson, do you have any feeling on that as to how we separate out the clerical people?

Ms. BENSON. Well, I mean, I think there are any number of ways we can get comparability, whether it is locality or some other way. I don't really object to OPM's plan of putting clerical and technical employees on a locality basis and professional and administrative employees on a national basis. Many companies divide their work force that way and that is one feasible way of doing it.

Clerical workers usually are recruited locally and professional and administrative and managerial employees usually are recruited nationally.

Chairman GLENN. Do you think locality pay should apply across the board just to everybody? Because OPM's pay study found that salaries for professional and administrative occupations varied as much between the highest and lowest paying areas as the clerical and technical occupations. So do you think locality pay should be across the board?

Ms. BENSON. Not necessarily. I mean, no, not necessarily. If we are trying for comparability, if you are then going to lump all the professional and technical and clerical workers together, you might as well just have an average thing and have just an average raise. And we said there were problems with that. But if professionals are making a whole lot more and clericals aren't in the private sector, and what we are looking for is comparability, then we are supposed to be trying to reflect that.

Ms. LEYSER. Senator, I believe that they should be in the locality, based on locality.

Chairman GLENN. Everybody?

Ms. LEYSER. Yes, within that occupation. I mean, if we are paying attorneys a certain amount in Chicago, then they should be comparable to the attorneys in Chicago in the private sector. I don't think the mobility is as big of an issue.

Chairman GLENN. Ms. Spinks.

Ms. SPINKS. I disagree with both of them. I don't think it should be the job category and I don't think it should be just for the lower grade people. If the food, clothing, and shelter costs more in an area it cost more for everyone there and it is not the kind of thing that is going to increase their income a great deal. The one concern that I had was if it is really going to be counted later in their retirement, then that would mean that employees who serve in a locality where there is this additional pay, when they retire would have a higher prorated retirement than those who never had the opportunity to move and serve in a locality where there was the additional pay. That will cause some unhappiness among some people.

Chairman GLENN. Well, it may, and I think that is one of the problems that many of our big businesses run into on transferring people around where they give pay that is comparable to local pay or is commensurate with local pay scales. And I don't know how—I think that most people that would have lived and worked in an area say 15 or 20 years, I would think they would tend to stay there. Most of them would probably have a home and their friends and they are members of the community and organizations. Some might transfer, and I wanted to ask this because Ms. Benson had addressed a little bit transfers prior to retirement. You indicated in your statement some concern about that, as to whether there may be an abuse where people were transferred to a higher paying area just to qualify for a higher retirement pay.

Ms. **BENSON**. Well, I was mostly concerned about the other end of it.

Chairman **GLENN**. It could go both ways, and you indicated, I believe, people could be transferred to a lower paying area and that way their retirement pay would be reduced.

Ms. **BENSON**. Well, it wasn't only just the punitive things. It was if an agency needs someone to go to a low cost area you don't want employees to feel reluctant to do a job that they would be willing to do but they don't want to mess up their retirement to do it.

Chairman **GLENN**. Well, that is one we are going to have to look into a little bit more I guess.

Ms. **SPINKS**. Well, forgive me, I think that that is why I want locality pay to be separate and not credited to the retirement. Then that would not inhibit anyone from serving where requested.

Ms. **BENSON**. But then you are not basing your retirement on your whole salary, and retirement is supposed to be based on a percentage of your salary.

Chairman **GLENN**. This is a rather vexing question here. We are going to have to deal with that and look at it more, because I can see a situation where if everyone retired on the same scale no matter where you had been, well, you have lived 25 years working for the Federal Government, you have established a certain mode of life, if you will, based on what your earnings were, and if you had a percent of that you still retire in the local area on the same basis and everyone else you have been associated with. Now, if you retire on a lower national average perhaps you don't have enough to really retire in that area and you would have to move to a lower cost area, if you follow all that convoluted reasoning.

Ms. **BENSON**. Yes, exactly.

Ms. **LEYSER**. That is why we think it is essential to have it included in the base pay. You know, the idea that people can transfer from here to there based on how much money they are going to get for retirement. People don't transfer on their own volition, they are usually set up for that.

Chairman **GLENN**. I think I am glad we put this pay council in this piece of legislation. They are going to have some good things to consider, the way it looks, if we get this thing through. Thank you all very much. We appreciate you being here. We may ask you to respond to additional questions from other members of the Committee. We would appreciate your early response to those.

Thank you much. The hearing will stand in recess subject to the call of the Chair.

[Whereupon, at 11:15 a.m., the hearing was adjourned subject to the call of the Chair.]

APPENDIX

101st CONGRESS
2d Session

S. 2274

To establish a Federal pay system with locality-based adjustments.

IN THE SENATE OF THE UNITED STATES

MARCH 9 (legislative day, JANUARY 23), 1990

Mr. GLENN (for himself and Mr. LAUTENBERG) introduced the following bill; which was read twice and referred to the Committee on Governmental Affairs

A BILL

To establish a Federal pay system with locality-based adjustments.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Federal Pay Comparability Reform Act of 1990".

SEC. 2. POLICY.

Section 5301 of title 5, United States Code, is amended—

(1) in subsection (a)—

(A) in paragraph (1) by inserting "within each pay area" after "work";

(B) in paragraph (2) by inserting "within each pay area" after "maintained"; and

(C) in paragraph (3) by striking out "pay rates for the same levels of work" and inserting in lieu thereof "and State and local government pay rates for the same levels of work within each pay area"; and

(2) in subsection (c)—

(A) in paragraph (2) by striking out "or" at the end thereof;

(B) in paragraph (3) by striking out the period and inserting in lieu thereof a semicolon and "and"; and

(C) by adding at the end thereof the following new paragraph:

"(4) chapter 54 of this title, relating to the performance management and recognition system.".

SEC. 3. LOCALITY-BASED ADJUSTMENTS.

(a) ADJUSTMENTS.—Chapter 53 of title 5, United States Code, is amended by inserting after section 5301 the following new section:

"§ 5302. Locality-based adjustments

"(a) Locality-based pay adjustments shall be determined by the Federal Pay Council established under section 5306 based on pay relative data determined by the Bureau of

Labor Statistics under section 5305 for clerical and technical positions, professional and administrative positions, and other positions (including law enforcement officers). The adjustments shall be paid in wage areas determined by the Bureau of Labor Statistics and shall apply to each employee in a statutory pay system as defined under section 5301 whose permanent duty station is within the boundaries of the applicable wage area. An employee whose permanent duty station is not located within the boundaries of wage area surveyed by the Bureau of Labor Statistics shall receive that locality-based pay adjustment, if any, payable to employees in the nearest wage locality.

"(b) For purposes of pay retention under section 5363 of this title, that portion of a pay rate based on locality-based adjustments shall not be a rate of basic pay, if an employee transfers to a locality with a differing locality-based pay rate. Locality-based pay rates shall be part of basic pay for all other purposes, including retirement, life insurance, lump-sum leave payments, and severance pay.".

(b) CONFORMING AMENDMENT.—The table of sections for chapter 53 of title 5, United States Code, is amended by inserting after the item relating to section 5301 the following:

"5302. Locality-based adjustments.".

SEC. 4. HIGHER MINIMUM RATES; PRESIDENTIAL AUTHORITY.

Section 5303 of title 5, United States Code, is amended to read as follows:

"§ 5303. Higher minimum rates; Presidential authority

"(a) Whenever the President finds that the Government's recruitment or retention efforts with respect to 1 or more occupations in 1 or more areas or locations are significantly handicapped, due to any of the circumstances described in subsection (b), he may establish for the areas or locations involved, with respect to individuals in positions paid under any of the pay systems referred to in subsection (c), higher minimum rates of basic pay for 1 or more grades or levels, occupational groups, series, classes, or subdivisions thereof, and may make corresponding increases in all step rates of the pay range for each such grade or level (including under an alternative pay schedule). However, a minimum rate so established may not exceed the maximum pay rate prescribed by statute (or established under an alternative pay schedule, if applicable) for the grade or level. The President may authorize the exercise of the authority conferred on him by this section by the Office of Personnel Management or, in the case of individuals not subject to the provisions of this title governing appointments in the competitive service, by such other agency as he may designate.

"(b) Authority under subsection (a) may be exercised if the Government's efforts to recruit or retain well-qualified individuals are significantly handicapped by—

"(1) the remoteness of the area or location involved;

"(2) the undesirability of the working conditions or the nature of the work involved (including exposure to toxic substances or other occupational hazards); or

"(3) any other circumstances which the President (or an agency duly authorized or designated by the President in accordance with the last sentence of subsection (a)) considers appropriate.

"(c) Authority under subsection (a) may be exercised with respect to positions paid under—

"(1) a statutory pay system; or

"(2) any other pay system established by or under Federal statute for civilian positions within the executive branch.

"(d) Within the limitations applicable under the preceding provisions of this section, rates of pay established under this section may be revised from time to time by the President or by such agency as he may designate. The actions and revisions have the force and effect of statute.

"(e) An increase in a rate of pay established under this section is not an equivalent increase in pay within the meaning of section 5335.

"(f) The rate of basic pay established under this section and received by an individual immediately before a statutory increase, which becomes effective prior to, on, or after the date of enactment of the statute, in the pay schedule applicable to such individual of any pay system referred to in subsection (c), shall be initially adjusted, effective on the effective date of the statutory increase, under conversion rules prescribed by the President or by such agency as the President may designate.

SEC. 5. PRESIDENTIAL POLICIES AND REGULATIONS.

Section 5304 of title 5, United States Code, is amended—

(1) by amending paragraph (1) to read as follows:

"(1) reviewing and reporting to the President biannually the comparison of Federal pay rates with pay rates in private enterprise and State and local governments;";

(2) in paragraph (2) by striking out "annual comparison" and inserting in lieu thereof "annual general adjustment and locality-based adjustments"; and

(3) in paragraph (4) by inserting "and State and local government" after "enterprise".

SEC. 6. ANNUAL GENERAL ADJUSTMENT AND LOCALITY-BASED ADJUSTMENTS.

(a) ADJUSTMENTS.—Section 5305 of title 5, United States Code, is amended by striking out subsections (a) through (k) and substituting in lieu thereof:

"(a)(1) In order to carry out the policy stated in section 5301 of this title, the President shall—

"(A) direct the Bureau of Labor Statistics to determine in each fiscal year the increase in wages or salaries as reflected by the employment cost index (wages and salaries, white-collar occupations) based on information for the preceding 12-month period ending on September 30 of each year; and

"(B) direct the Bureau of Labor Statistics to determine pay relative data for each locality surveyed for the categories of positions in the General Schedule of—

"(i) clerical and technical positions;

"(ii) professional and administrative positions; and

"(iii) other positions including law enforcement officers.

"(2) The pay relatives shall be the average earnings for a certain employment group in a locality expressed as a percentage of the average earnings for that employment group in all wage areas combined. The wage areas surveyed shall be those areas determined by the Bureau of Labor Statistics in consultation with the Federal Pay Council. Each wage area shall be surveyed at least once every 2 years.

"(b) No later than November 1 of each year, the Bureau of Labor Statistics shall submit a report of the determinations made under subsection (a) to the Federal Pay Council established under section 5306.

"(c)(1) No later than December 31 of each year, the Federal Pay Council shall report to the President and the Congress the annual general adjustment which shall be that percentage adjustment to statutory pay rates which equals the increase in the employment cost index. The Council shall also report locality adjustments necessary to reflect the pay relative data determined by the Bureau of Labor Statistics. Such adjustments shall be included in the budget next transmitted under section 1105(a) of title 31, United States Code by the President to the Congress after the date of the submission of the Council's report.

"(2) The employment cost index adjustment described under paragraph (1) shall be rounded to the nearest tenth of a percent. The locality-based adjustment described under paragraph (1) shall be rounded to the nearest whole percent.

"(d) Except as provided in subsection (e) of this section, the President shall make adjustments in the rates of pay of each statutory pay system equal to the general annual adjustment and locality-based adjustment figures as reported under subsection (c) of this section and in accordance with the principles of section 5301(a) of this title, effective as of the beginning of the first applicable pay period beginning on or after October 1 of the applicable year.

"(e) The President shall prepare and report to the Congress in the budget transmittal described under subsection (c) of this section, a determination that the annual general adjustment or the locality-based adjustments should be limited or not implemented in the event of national emergency or economic conditions affecting the general welfare that requires the imposition of national wage-price controls. Any general adjustment or locality-based adjustment reduced or deferred by such a determination shall be implemented after the termination of such national emergency or wage-price controls.".

(b) REDESIGNATIONS.—Section 5305 of title 5, United States Code, is amended—

(1) by redesignating subsection (l) as subsection (f);

(2) by striking out subsection (m); and

(3) by redesignating subsections (n) through (r) as subsections (g) through (k), respectively.

(c) TECHNICAL AND CONFORMING AMENDMENTS.—

(1) The heading for section 5305 of title 5, United States Code, is amended to read as follows:

"§ 5305. Annual general adjustment and locality-based adjustments.".

(2) The table of sections for chapter 53 of title 5, United States Code, is amended by amending the item relating to section 5305 to read as follows:

"5305. Annual general and locality-based adjustments.".

SEC. 7. FEDERAL PAY COUNCIL.

(a) FEDERAL PAY COUNCIL.—Section 5306 of title 5, United States Code, is amended—

(1) by amending subsection (a) to read as follows:

"(a)(1) There is established as an independent establishment a Federal Pay Council, to be composed of 9 members including—

"(A) the Director of the Office of Personnel Management, who shall chair the Council;

"(B) the Secretary of Labor;

"(C) the Director of the Office of Management and Budget; and

"(D) six members who are not Federal employees, to be appointed by the President upon consideration of their knowledge and experience in the field of labor relations and pay policy, including three representatives from Federal employee unions or groups.

"(2) The President shall consult with the Chairmen and Ranking Minority Members of the Senate Committee on Governmental Affairs and the House Committee on Post Office and Civil Service in making the appointments of these six members.

"(3) The members described in subsection (a)(2) of this section shall be appointed for a term of 3 years, and such members appointed to fill a vacancy occurring before the end of the term of their predecessors shall serve for the remainder of those terms. When the term of a member described in subsection (a)(2) ends, that member may continue to serve until a successor is appointed.";

(2) in subsection (b)—

(A) by amending the matter preceding paragraph (1) to read as follows: "In order to carry out the policy under section 5301 of this title, the Council shall—";

(B) by amending paragraph (1) to read as follows:

"(1) receive the findings of the Bureau of Labor Statistics as reported under section 5305(a)(2), determine the general annual adjustment and locality-based adjustments necessary to maintain Federal pay consistent with the information gathered by the Bureau of Labor Statistics, and make recommendations to the

Bureau of Labor Statistics concerning the number of boundaries of appropriate pay areas within the conterminous United States;";

(C) in paragraph (2)—

(i) by striking out "annual report of the President's agent" and inserting in lieu thereof "report from the Bureau of Labor Statistics"; and

(ii) by striking out ", the President's agent, other" and inserting in lieu thereof "and other";

(D) in paragraph (3) by inserting "and the Congress" after "the President";

(3) in subsections (c) through (h) by striking out "Committee" each place it appears and inserting in lieu thereof "Council" in each such place; and

(4) in subsection (g) by striking out "Each member of" and inserting in lieu thereof: "Each public member appointed under subsection (a)(2) of this section to".

(b) TECHNICAL AND CONFORMING AMENDMENTS.—(1) The heading for section 5306 is amended to read as follows:

"§ 5306. Federal Pay Council".

(2) The table of sections for chapter 53 of title 5, United States Code, is amended by amending the item relating to section 5306 to read as follows:

"5306. Federal Pay Council.".

SEC. 8. PAY LIMITATION.

Section 5308 of title 5, United States Code, is amended to read as follows:

"§ 5308. Pay limitation

"Except for locality-based adjustments, pay may not be paid, by reason of any provision of this subchapter, at a rate in excess of the rate of basic pay for level V of the Executive Schedule. Pay adjusted in accordance with this subchapter, including any locality-based adjustment, may not exceed the rate of basic pay for level II of the Executive Schedule.".

SEC. 9. CRITICAL-POSITION PAY AUTHORITY.

(a) CRITICAL-POSITION PAY AUTHORITY.—Subchapter I of chapter 53 of title 5, United States Code, is amended by adding at the end thereof the following new section:

"§ 5309. Critical-position pay authority

"(a) The Director of the Office of Management and Budget, in consultation with the Director of the Office of Personnel Management, may, from time to time, allocate and rellocate among the departments and agencies of the executive branch, critical-position pay authority for not to exceed a Government-wide total of 100 positions.

"(b) The head of an agency that receives an allocation of critical-position pay authority may exercise such authority for not to exceed the number of positions for which authority is received from the Director of the Office of Management and Budget under subsection (a).

"(c) For purposes of this section, 'critical-position pay authority' means the authority for the head of an agency, notwithstanding any other law, including any provision of this chapter, to fix the rate of basic pay for any position which such agency head determines to be a critical position at an annual rate that does not exceed the rate in effect for level I of the Executive Schedule, except that the aggregate annual amount paid (including any allowance, bonus, award, or other direct compensation) to an employee under this section during any fiscal year may not exceed the annual rate payable for positions at level I of the Executive Schedule in effect at the end of such fiscal year.

"(d) Critical-position pay authority for a position may be reexercised when a position becomes vacant and is refilled only upon a redetermination by the agency head that the position remains a critical position within the meaning of this section. Such authority may be reexercised only if the allocation made by the Director of the Office of Management and Budget required for such exercise under subsection (a) is reconfirmed by the Director of the Office of Management and Budget at the time of such reexercise.

"(e) In determining whether a position is a critical position to which this section shall apply, the head of the agency shall consider—

"(1) the extent to which the position requires scientific, technical, professional, or administrative qualifications; and

"(2) the extent to which additional compensation is necessary to recruit or retain exceptionally qualified individuals.".

(b) TECHNICAL AND CONFORMING AMENDMENTS.—The table of sections for subchapter I of chapter 53 of title 5, United States Code, is amended by adding at the end thereof the following:

"5309. Critical-position pay authority.".

SEC. 10. REPORTS BY THE FEDERAL PAY COUNCIL.

(a) REPORT ON LOCALITY-BASED ADJUSTMENTS FOR CERTAIN EMPLOYEES.—Within 2 years after the date of the enactment of this Act, the Federal Pay Council shall report to the President and the Congress on the feasibility of including within the scope of the locality-based adjustment plan those employees who are stationed outside the continental United States or in Alaska who receive allowances based on living costs and conditions of environment under section 5941 of title 5, United States Code.

(b) REPORT ON ADJUSTMENTS RELATING TO EMPLOYMENT PERFORMANCE.—Within 2 years after the date of the enactment of this Act, the Council shall report to the President and the Congress on the feasibility of linking all or part of the annual adjustments and locality-based adjustments to the employee's on-the-job performance.

(c) REPORT ON OTHER PLANS.—Within 3 years following implementation of the pay increases for fiscal year 1992, the Council shall submit a plan to the President and the Congress to close any remaining differences in Federal pay in comparison with private enterprise and State and local government pay rates.

SEC. 11. MINIMUM RATE FOR NEW APPOINTMENTS.

Section 5333(a) of title 5, United States Code, is amended by striking out "in GS–11 or above" and inserting in lieu thereof "in the General Schedule or other statutory pay system".

SEC. 12. EQUAL PAY PRINCIPLES.

Section 2301(b)(3) of title 5, United States Code, is amended by striking out "employers in the private sector" and inserting in lieu thereof "non-Federal employers".

SEC. 13. IMPLEMENTATION.

In the implementation of the amendments made under this Act for the fiscal year beginning on October 1, 1991, the

Bureau of Labor Statistics may use pay relative and locality data from commercially available sources, as necessary.

SEC. 14. EFFECTIVE DATE.

The provisions of this Act and amendments made by this Act shall take effect on October 1, 1990, and the annual general adjustment and any locality-based adjustments under such amendments shall take effect on the first applicable pay period beginning on or after October 1, 1991. The provisions of title 5, United States Code, (before the amendments made by this Act) shall apply for pay adjustments made under section 5305 of such title before October 1, 1991.

Statement of Congressman Bill Green (R-NY)
Before the Senate Committee on Governmental Affairs
March 21, 1990

Chairman Glenn and Senator Roth, I commend you for holding this hearing and thank you for this opportunity to testify on reforming our federal pay system. As you know, the federal employment crisis has long been a great concern of mine. Nowhere is that crisis more pronounced than in New York City!

High cost of living in the New York metropolitan area has been well documented. Recent surveys conclude that there is a 28% gap between federal and private sector pay in New York. The rise in consumer prices has forced a substantial number of federal employees to seek employment in the private sector because they are unable to maintain a decent standard of living on a federal salary. Consequently, the exodus of federal employees to the private sector has had a negative effect on services provided to the American public.

The decline in agency productivity is evident. Tasks are being processed rather than projects managed, quick-fixes have replaced long-term solutions, and administrative costs have skyrocketed due to constant turnover. The crisis is not going to go away, it will only get worse. Chairman Volcker said it best -- "The Government is increasingly unable to attract, to retain and to motivate the kinds of people it will need to do the essential work of the republic."

Let me share with you an example to illustrate the importance of considering a salary system based on regional cost of living. It has been reported that the IRS loses about 2 million tax returns on an annual basis. Naturally the loss of returns contributes to a tremendous loss in revenue. In addition, due to the Government's disadvantage in the salary area, the IRS has been forced to lower its hiring standards; this creates costly delays and further contributes to the agency's inability to serve the public in a timely and cost-efficient manner.

Study after study provide convincing evidence that the current pay system has failed and recommend locality pay as an alternative. A year ago, the National Commission on Public Service issued its report, **Leadership For America: Rebuilding the Public Service.** The Commission, headed by former Federal Reserve Board Chairman Paul Volcker made some strong recommendations with regard to the locality pay issue. The Commission concluded that the current goal of pay comparability is "simplistic and unworkable" and recommended a pay system that recognizes locality. The Commission also called for the development of a locality pay system that would compensate for higher living costs and labor market pressures.

In addition to the Volcker Commission report, on August 30, 1989 the Office of Personnel Management (OPM) issued a comprehensive, year-long research effort which concluded that the General Schedule is no longer adequate in recruiting and retaining a quality workforce. Referring to the General Schedule as a "monolithic structure", the OPM report recommended the creation of a pay system based on local labor market rates. As a result, OPM intends to propose locality pay legislation in the next few weeks. Part of the proposal will authorize geographic pay differentials of up to eight percent for all personnel in New York City, Los Angeles and San Francisco.

I should also like to take this opportunity to commend President Bush for recognizing the plight of the federal worker in New York City and other urban areas. The fiscal year 1991 budget permits federal agencies to use up to $328 million to institute federal pay reform. In addition, the Administration will seek five percent increases in starting salaries nationwide.

Last year I reintroduced legislation (H.R. 182) which would replace the inflexible nationwide General Schedule salary system with a pay program that is more responsive to local labor markets. The legislation is aimed at restoring a strong public service by providing federal workers with a reformed pay system. H.R. 182 would mandate that the Bureau of Labor Statistics develop and implement a method for determining the cost of living in each area of the country relative to the cost of living in the District of Columbia. Employee salaries would then be increased by the percentage corresponding to the percentage by which the cost of living in such an area exceeds the District's.

The time for studying the federal pay problem is over. Now it is time to act. As the Committee turns its attention to this employment crisis I urge you to take regional cost of living factors into consideration. Let's face it, cost of living needs to be considered when determining federal salaries. By adopting a salary system that is more responsive to local labor markets we can preserve a strong federal workforce that will be well equipped to confront the problems and challenges of the next century.

United States General Accounting Office

GAO

Testimony

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Federal White-Collar Employee Salary Reform

Statement of
Richard L. Fogel, Assistant Comptroller General
for General Government Programs

Before the
Committee on Governmental Affairs
United States Senate

GAO Form 160 (12/87)

FEDERAL WHITE-COLLAR EMPLOYEE SALARY REFORM

Summary of Statement by
Richard L. Fogel
Assistant Comptroller General
for
General Government Programs

GAO strongly endorses actions to reform federal white-collar employee pay-setting principles and processes. The salary comparability principle adopted in 1962 has been ineffective because (1) increases necessary to maintain comparability with rates paid by nonfederal employers have not been granted for many years, and (2) national average nonfederal salary rates used to determine comparability have little relevance to nonfederal rates in many localities where federal employees work. Also, the comparability principle does not consider the wide variances in the cost-of-living in different parts of the country.

Noncompetitive salary rates are the major reason for federal recruitment and retention difficulties, especially in high-cost, high-paying localities.

GAO believes that federal salary rates must be restored to competitive levels in a fiscally responsible manner. S.2274 accomplishes this objective by initially calling for adjustments to basic pay rates in localities where nonfederal pay rates are above the national average. The bill does not require the direct comparison of federal and nonfederal salaries in the localities, but is designed to make federal salaries more competitive in those localities where the federal pay disparities are the most severe. GAO suggests that direct comparisons of federal and nonfederal salaries would be more appropriate and believes that cost-of-living levels should also be considered in determining locality adjustments.

GAO also points out that private sector companies often grant salary increases to individual employees based on their job performance and suggests that requiring greater accountability from federal employees in return for higher salary levels is an issue that needs serious consideration.

Mr. Chairman and members of the subcommittee:

Thank you for the opportunity to appear here today and provide our views on the issue of federal white-collar employee pay reform. This is an extremely important subject on which we have done considerable work and have several reviews currently in process.

Our work all points to one basic conclusion. The federal government must recognize that its pay disparities with the nonfederal sector can no longer be tolerated. Federal recruitment and retention difficulties are real. The government must be able to compete for and hire quality employees if it is to effectively deliver services to the American people.

WHAT IS THE PAY PROBLEM AND WHAT CAUSED IT?

The Federal Salary Reform Act of 1962, as refined by the Federal Salary Reform Act of 1970, established the principle that federal salary rates for white-collar employees should be comparable with average rates paid by private sector employers for similar jobs. The comparability principle holds that the private sector will determine the "going rates" for jobs like those found in the government, and by paying national average rates, the government, federal employees, and the taxpayers are assured that federal salary rates are reasonable and competitive.

Two factors have prevented the comparability principle from operating as intended. First, the process established to maintain salary comparability with the private sector has not been followed for many years. Every year, beginning in 1978, Presidents have decided to grant federal pay raises at lesser amounts than needed to maintain comparability. As a result, a large gap between national average federal and private sector salaries gradually developed over the years. The federal salary increase recently granted in January provides a good illustration of how the gap continues to grow. To stay even with the average salary increase in the private sector during the previous year, federal salaries should have been increased about 6.4 percent. Instead, a 3.6 percent increase was granted, thereby widening the gap even further.

The other factor that caused the pay comparability principle not to accomplish its objective was its assumption, implicit in the use of national averages, that nonfederal rates are similar in the different parts of the country where federal employees work. While very limited information is now publicly available on how federal rates for particular jobs in specific locations compare to nonfederal rates in the same localities, we are finding that substantial variances exist. A national average often has little relevance to nonfederal rates in a specific locality.

For example, our work in connection with the National Commission on Law Enforcement showed that state and local government salaries for law enforcement personnel clearly varied by region, with the lowest salaries reported in the South, Southwest, and rural areas of the Midwest. The highest salaries were in California, New York, Washington State, New Jersey, and Massachusetts.

In another analysis, we are comparing private sector and federal salaries by job level and location for certain occupations primarily in the technical and clerical job categories. Our analysis was limited to about 60 of the over 250 metropolitan areas in the country. Of the locality/job level comparisons we were able to make, we found that the private sector paid more than the federal government about 90 percent of the time. The private sector pay advantages ranged from minor amounts to over 100 percent. In over 80 percent of the comparisons, the private sector advantage was at least 10 percent. Overall, the median private sector pay advantage was over four times greater than the median federal pay advantage. Among the areas in our analysis where the federal rate was most behind the private sector rates were Detroit, San Francisco, Los Angeles, Newark, Boston, and New York.

The comparability principle also does not consider the wide variance in the cost-of-living in different parts of the country. When two federal employees in different locations are paid the same salary, their purchasing power can be quite different depending on the cost-of-living in their locations. Among the 59 metropolitan areas with at least 5,000 federal white-collar employees, living costs vary more than 65 percent. Housing costs differ widely by area and are the primary determinant of the living cost variances. For example, the current market value for a house in San Francisco is more than three times the market value of the same house in San Antonio[1]. Yet, federal employees with the same job in these two cities receive the same base pay under the federal General Schedule salary system.

In general, the areas with the highest nonfederal salary levels also have the highest cost of living. However, there are many exceptions. For example, salary rates are quite high in Houston, but Houston's cost-of-living is below the national average. Conversely, San Diego has relatively average salary rates, but its cost of living ranks 10th among the 59 areas with 5,000 or more employees.

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[1] The standard house used for comparison purposes contained 1,400 square feet, 3 bedrooms and 1.5 baths.

While we believe it is appropriate to continue a national salary structure for white-collar employees, we are convinced that locality-based pay adjustments are needed because of the significant differences in nonfederal salary rates and cost-of-living by locality.

WHAT ARE THE EFFECTS OF THE PAY PROBLEM?

If federal salary rates are not competitive, the implications are clear -- the government will be unable to attract and keep the kinds of employees it needs to carry out the Nation's business. Unfortunately, our work and studies by other groups, such as the Law Enforcement Commission and the National Commission on the Public Service, have shown that recruiting and retention problems are occurring and can only get worse if corrective action is not taken. Some examples illustrate these problems:

- According to federal law enforcement personnel, lack of competitive pay deters qualified people from applying. More than half of all managers and employees the Law Enforcement Commission surveyed felt this to be true and many law enforcement officials believe it is the main reason law enforcement personnel leave federal service.

- In Boston, entry-level school bus drivers receive higher pay than journeyman federal aircraft mechanics.

- The Internal Revenue Services' Newark, New Jersey office found the applicants for revenue agent positions to be of such poor quality that it chose to leave 50 positions vacant; and

- The Navy reported it is losing electronics technicians who work on sophisticated radar systems at the Alameda Naval Air Station because they can make $5 more an hour working on stoplights for the local city government.

We are finding that the greatest reason employees quit federal jobs is low salary levels. The pay disparities are occurring in virtually all locations, but the recruitment and retention problems are most pronounced in areas where nonfederal salary rates and the cost-of-living are the highest and in areas where other employment opportunities are readily available. Agencies tell us that high turnover rates cause them numerous operational problems, including reduced service delivery, increased recruiting and training costs, more overtime pay, and upper-level employees having to do lower-level work.

Of potentially greater long-term significance, we are finding in a series of meetings with college students that they have very little interest in seeking a federal job when they graduate. They have been subjected to so much anti-government rhetoric that they appear convinced that more challenging careers are available in the private sector. They particularly find federal pay rates to be unsatisfactory or "exploitive" as one student described them. Of 64 students in our various discussion groups, only 2 indicated a willingness to accept a starting salary at the federal entry-level rate. Interestingly, the students thought the threshold for an appropriate salary is a function of what it costs to live in a given location. They saw little logic to national salary rates when the cost-of-living was so different across the country.

Hopefully, positive recruiting efforts can help to counteract the negative perceptions of federal employment that college students hold. However, it is apparent that low entry-level salary rates will continue to be a problem unless corrective actions are taken.

PRIVATE SECTOR PAY PRACTICES

As part of our assessment of federal pay and other employment programs, we are surveying the practices followed by large companies that, like the government, have employees in numerous locations. We sent questionnaires to all 148 companies in the country that our data source indicated had at least 25,000 employees each and had employees in at least 10 locations. The survey is not yet complete, but to date we have received usable responses from 62 companies that met our selection criteria. Responses from 14 other companies indicated that they either did not meet our selection criteria or were so decentralized and diverse that they could not complete the questionnaire from a company-wide standpoint.

Since the survey is still on-going, we cannot at this time say anything definitive about private sector practices in general, but we are seeing some very interesting information from the responses received to date.

The questionnaire asked the companies to indicate their wage and salary objective in relation to market rates.

Almost without exception, the 62 companies said their objective is to have pay rates no lower than the 50th percentile of rates paid by other employers, thereby indicating that maintaining competitive salary levels is a very important aspect of the compensation philosophy of the Nation's leading private companies. Some of the companies said their objective is to pay above the 50th percentile. Since the government's pay rates are around the 40th percentile of national average salaries, these findings are further evidence that the government is not a competitive employer.

We also asked the companies whether they paid different rates by locality. The 62 respondents indicated a wide variety of pay practices, including local schedules for all job categories, national schedules for all job categories, national schedules for some categories (most often top officials and managers and professional employees) and local schedules for others, and some local and some national schedules for the same employee groups. In some cases, the companies had local variations for their employees on national schedules, such as different pay raise amounts for employees in different locations and cost-of-living allowances for employees in high-cost areas.

The responses received to date do not show any predominant pattern in the private sector on locality pay practices for white-collar employees. It is evident, however, that companies give a great deal of thought to how they set salary levels to meet their own needs and that there is often considerable variation in pay practices by locality. One company, for example, reported that it has divided the country into three regions based on analyses of the cost-of-living in its various locations. Base salaries are set for the lowest cost-of-living region, and employees in the other two regions receive 10 percent and 20 percent add-ons to the base salaries for their pay grades. This practice is followed for employees in all job categories. Another company reported it uses local salary schedules for all employee categories except top executives. On the other hand, one company said it paid all employees at national rates, and these national rates were based on prevailing salary levels in New York City where the company's headquarters is located. This company acknowledged that its pay rates in many parts of the country are higher than needed to be competitive with other employers.

WHAT KINDS OF CHANGES ARE NEEDED?

Our work strongly suggests that the following basic principles should be followed in determining federal salary amounts:

1. Federal salaries must be competitive by locality to attract and retain high-quality employees.

2. In determining prevailing salaries in a locality, rates paid by state and local governments as well as private companies should be taken into account. (The law now limits salary comparisons to the private sector.)

3. The restoration of federal pay to competitive amounts must be done in a fiscally responsible manner.

4. Action should be taken to avoid any further widening of the national pay gap.

S.2274 is generally consistent with the above principles. It uses nonfederal pay relatives to determine locality pay adjustments and calls for a plan to be developed later to correct any remaining pay disparities. To stop the overall pay gap from widening, the bill also requires that General Schedule rates be adjusted each year to reflect increases in the Employment Cost Index (ECI) compiled by the Bureau of Labor Statistics.

We agree with the bill's incremental approach to resolving the government's salary problems. The vast gulf that has been allowed to develop between federal salary levels and market rates is simply too large to correct at one time.

However, we would point-out that the pay relatives the bill uses to determine locality adjustments measure local nonfederal pay rates against national average nonfederal pay rates. They do not compare local federal and nonfederal salaries. Accordingly, these pay relatives will not show the extent to which federal salaries are behind (or ahead of) prevailing nonfederal rates in any locality. They do, however, afford a means by which an initial step can be taken to provide some relief in those localities where the pay disparities are the most severe.

We think it would be more appropriate over the long term to directly compare federal and nonfederal salaries in each locality. Moreover, we believe cost-of-living differences among localities should be considered along with the salary comparisons in determining the locality adjustments. Since the primary objective of the bill is to make federal pay rates more competitive, not necessarily comparable with nonfederal rates, including cost-of-living considerations in deriving locality pay adjustments would better accomplish that objective.

Also, as mentioned previously, nonfederal pay rates do not always mirror cost of living differences by locality. By adding cost of living differences to the salary comparisons, federal salary rates can be equalized in terms of spending power. Adjustments, however, should not result in federal salary rates exceeding the nonfederal rates in any area.

If our suggestions are adopted, a decision would then have to be made on how much of the pay disparities by locality could be corrected in the short run. One possible approach is to fill some percentage, maybe one-half, of the pay disparities. As the bill provides, a reading could be taken later of the budget situation and a plan developed for correcting any remaining disparities.

A further alternative is to begin to reduce the disparities immediately only in cities with the greatest differences between federal and nonfederal rates. Also, though it may take some time to reduce the disparities for all levels of the federal workforce, it is critical that the disparity at the entry level be dealt with quickly to better insure the government's competitiveness.

The notion of affordability also has another aspect. We do not believe agencies, across the board, should be expected to absorb all or large parts of the cost of pay increases within their existing budgets. If Presidents and Congress want good government, they must pay for it. Once it has been decided what federal programs are appropriate to be funded, the costs of properly carrying out the programs must also be funded. These costs include equitable compensation levels for the employees who manage and operate the programs.

CONSIDERATION OF PERFORMANCE LEVELS IN MAKING SALARY ADJUSTMENTS

In our opinion, the bill is on the right track in calling for a study of the feasibility of linking pay adjustment amounts and individual employee performance. According to the questionnaires we have received thus far from private companies, very few companies grant automatic pay increases to all employees when salary schedules are adjusted. They generally report that job performance is the primary criteria used in determining the amount of increase to be received by individual employees. We think the concept has merit and should be explored.

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That concludes my statement. My colleagues and I would be pleased to answer any questions you may have.

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TESTIMONY OF

MARTIN L. DUGGAN, CHAIRMAN
ADVISORY COMMITTEE ON FEDERAL PAY

ON

MARCH 21, 1990

BEFORE THE SENATE GOVERNMENTAL AFFAIRS COMMITTEE

Senator Glenn, and members of the Governmental Affairs Committee, it is an honor and privilege for me to be asked to appear before you today and to comment on the "Federal Pay Comparability Reform Act of 1990." Accompanying me today is Lucretia Dewey Tanner, Executive Director. Speaking for the other two members of the Advisory Committee and myself, we strongly support locality pay reform in 1990 and are hopeful that legislation will be enacted during this session of Congress.

As you know, the Advisory Committee on Federal Pay was established by the Federal Pay Comparability Act of 1970 (Public Law 91-656) as an independent body and adviser to the President on pay matters. The Committee's pay adjustment recommendations were intended to apply to approximately 1.4 million Federal employees covered by the General Schedule and those linked to the General Schedule who are employed by the Foreign Service and the Veterans Health Services and Research Administration (formerly the Department of Medicine and Surgery), part of the U.S. Department of Veterans Affairs.

The Committee is composed of private citizens who are appointed by the President to serve 6-year staggered terms. The members include W. Perry (Pete) Brown, Vice President and Director of Personnel of the American Cyanamid Company; and Warren Keating Hendriks, Jr., Senior Vice President/ Partner, DHR International, Inc., an executive search firm. Day-to-day activities of the Committee are carried out by two General Schedule employees. My term as Chairman expired on January 20 but I continue serving until a new Chair is named by the President or I am reappointed.

The 1970 Pay Act was intended to provide pay comparability between the Federal Government and the private sector. Comparability is defined as paying the average wage, so that the Federal Government would not be an unfair competitor in the market place by paying too much, but, at the same time, being assured its share of competent workers. As we all know, the Pay Act was successful in achieving its objectives until October 1977, the last time full comparability was implemented. Each year since 1978 there have been reasons not to grant the full comparability increase and each year the gap has grown. This year the pay gap is likely to average 30 percent.

The Advisory Committee's 1989 report to the President was entitled: "The Bottom Line on Federal Pay: The Gap Became a Canyon." With your permission, I would like to submit it for the record. We believe the report reflects the seriousness of the pay situation and urges reform, specifically that pay be based on local labor market rates. The Advisory Committee has advocated this method of setting pay since I first became Chairman, and I am delighted that both the Senate and House bills adopt this approach although differ in technical details.

While we are all aware of the recruiting and retention problems Federal agencies face, permit me to highlight just a few. A complete discussion appears in the Advisory Committee's 1989 report and will again be addressed this year.

The Federal Executive Boards in New York City, Northern New Jersey, Los Angeles County and Boston have amassed information showing the staffing and turnover problems in Federal agencies. The reports relate the large numbers of applicants who apply for positions, the equally large numbers who are found not qualified and, of the remaining, how few actually take Federal jobs and stay. For example, the Northern Metropolitan New Jersey FEB cited the Treasury Department's experience. It received 800 applicants for telephone positions, 600 applicants were not qualified, 150 of the remaining 200 passed the interview, and the position was offered to 145 people. Ninety applicants declined and the agency filled 55 of their 80 positions during Fiscal Year 1988. As of June, 35 remained. Additionally, the agency had to use higher graded technical employees to provide service to the public.

Recently, the Federal Government held job fairs in Washington, D.C. and major cities around the country. The turnout was overwhelming. While we do not have any statistical analysis of the applicants, a very impressionistic poll would indicate that about one-half were already Federal employees seeking to change agencies in order to improve their grade and pay. Of course, we do not know yet if applicants from the private industry were qualified and, if they were from defense industries slated for cutbacks. In any case, sheer numbers expressing an interest in Federal employment are not an accurate indicator of qualified applicants or serious potential job holders. On a more positive note, however, we hope there is a trend toward renewed interest in public service; it would be a welcomed reversal from the past decade.

Let me cite another example of the seriousness of the pay situation. Just a few years ago only a small percent of Federal employees were under the special rate program. Today, about 200,000, or 14 percent of the work force are eligible for this program and the numbers keep escalating. The occupations covered are no longer limited to engineers and health care professionals but now cover a wide array of occupations, including clerical workers. Thus, there now exists within the Federal Government's white-collar work force a locality pay system, at least for some employees. Blue-collar Federal employees covered under the Federal Prevailing Rate Systems Act of 1972 have been under a locality pay system for more than 100 years. Thus, the transition to a full scale local labor market pay system is not without precedent and should be accepted.

It should also be noted that agencies have not only been seeking special rates, they have also sought special treatment and exceptions from the General Schedule. We fear that, if pay reform is not enacted this year, the floodgate for special pay programs will be opened and, before it is finally closed, only a few will remain under the current General Schedule system.

If I may, I would like to note that, on April 24, the Advisory Committee will hold its annual hearings in Washington and has invited representatives of Federal unions, professional associations, and others interested in commenting on pay matters. In May and June, we plan to hold sessions in St. Louis, San Antonio, and Boston. These meetings will enable the Advisory Committee to expand its understanding of the Federal personnel situation, prepare a more comprehensive report to the President, and help contribute to the public's understanding of the varied and important missions of the Federal Government. We will also inform the Congressional repreentatives that the Advisory Committee will be in their areas and invite their participation or representation.

Turning now specifically to the Senate bill to reform pay, let me preface my remarks by saying there is no one right way to achieve comparability or to design a locality pay system. The important consideration is the intent, good will, and resources to make the system work; otherwise, it is doomed to fail.

My comments, then, on specific provisions of the bill are merely technical and no way reflect on the overall soundness of the concepts, objectives, or intent of this proposed legislation. We commend this Committee for introducing pay reform legislation and the Advisory Committee will work towards achieving this goal in 1990.

To others it may be odd that the Advisory Committee may be testifying favorably on a bill that seeks to terminate it as an entity. However, the Advisory Committee believes it has served a useful purpose for these many years and can point to letters of praise supporting the Advisory Committee's activities from the Chairmen of the Post Office and Civil Service Committee and Subcommittee on Compensation and Employee Benefits, other members of Congress, unions, professional associations, and individuals. Without sounding our horn too loudly, I believe the Advisory Committee has helped achieve higher increases than might have been granted, has served as a conscience, and has been one of the voices favoring a changed pay system. It is in this spirit that we favor the establishment of a new body proposed by the bill, the Federal Pay Council. The name, however, is very close to the current Federal Employees Pay Council and, instead, I would suggest this body be called the Federal Compensation Board.

Based on our long years of experience, may I suggest that there be included in the bill a formal mechanism to handle any disagreement or dispute that might arise within the newly created body. Perhaps the Federal Services Impasses Panel, or the Federal Mediation and Conciliation Service, should be given the authority to resolve disputes.

It may also be unfair to ask the Director of the Office of Personnel Management to chair this Council. Rather, we would recommend that a member of the public serve as the chair rather than either a direct representative of the President or someone from the unions. This is a small modification to make, but one we believe would enhance the process. Having seen what has happened in past meetings between the Pay Agent and the Federal Employees Pay Council, we believe this new institution should be able to withstand any individual personality occupying the office.

Under the proposed law, the locality pay adjustments would be based on pay relatives for three categories of positions in the Federal Government: (1) clerical and technical; (2) professionals and administration; and (3) other, including law enforcement officers. A pay relative is defined as the average earnings for a given occupational category in a given pay area, expressed as a percentage of average earnings for that job category in all pay areas combined.

Although some of us in the compensation field understand pay relatives, it may be too complex for general consumption. I would suggest that a simple comparison of wages might be appropriate. Simply compare the Federal white-collar salaries to non-Federal white-collar pay in an area as is now done for benchmark jobs. While it may be technically more correct to break out the three categories of occupational groupings, I would suggest that could create some problems. When employees in the same office receive different pay adjustments in a year, dissension may occur. For simplicity, all Federal employees within a geographic area should receive the same amount; exceptions are those in special rate categories, as provided by the proposed law. Although this is more costly, increases could be phased in over a 5-year period.

The Employment Cost Index (ECI) is receiving widespread support as a mechanism to adjust pay. It is also an approach the Advisory Committee has recommended in past reports to the President. Section 6(a)(1) calls for using the Employment Cost Index (wages and salaries only) for white-collar occupations. If the intent is to designate all civilian workers, it should be remembered that this category includes both private industry and State and local government. Included in the State and local government category are both white- and blue-collar workers, as well as education and health care workers. While this may appear to be a minor matter, it could make a difference in future adjustments. For example, the civilian white-collar wages and salaries only index for 12 months ending September 1989 was 5.1 percent. White-collar workers in private industry received 4.8 percent, white-collar workers in State and local governments, 5.9 percent. Thus, it may be appropriate to specifically spell out exactly which categories of employees are to be included in the index used. As an exhibit, I am including Table 10 of the Bureau of Labor Statistics' publication, Current Wage Developments, which shows the categories of employees surveyed.

Still on a very technical note, it should be mentioned that, under the proposed law, the time between when the ECI is recorded (September 30 of one year) until the implementation in the next year, is one year. During this time period, dramatic changes in the economy could take place and the previous year's wage adjustment might have little relevance to current conditions. Thus, the Compensation Board should be able to review and, if necessary, revise earlier recommendations in the summer, with Presidential concurrence before implementation October 1.

In concluding my remarks, let me say that, when we were preparing this statement, the Administration's bill was not available to us, so we have no knowledge of what this bill contains, other than some form of locality pay. However, we have reviewed the House Bill (HR 3979) and believe that, aside from a few minor differences, the bills are compatible. The Advisory Committee sincerely hopes that the Administration and Congressional pay reform bills will be seen as similar enough that compromise legislation can be drafted and a pay bill passed this session. It is imperative that a comprehensive measure be enacted to prevent a complete splintering of the General Schedule and the resultant chaos.

With this, I would like to conclude my remarks and answer any questions.

WAGES AND SALARIES

Table 10. Employment Cost Index for wages and salaries only, by industry and occupational group

(Not seasonally adjusted)

Series	Indexes (June 1981=100)			Percent Changes for					
				3 Months Ended			12 Months Ended		
	Sept. 1988	June 1989	Sept. 1989	Sept. 1988	June 1989	Sept. 1989	Sept. 1988	June 1989	Sept. 1989
Civilian workers	140.3	144.6	146.9	1.3	0.8	1.6	3.9	4.3	4.[illegible]
Workers, by occupational group									
White-collar occupations	145.2	149.8	152.6	1.5	.8	1.9	4.2	4.8	5.1
Blue-collar occupations	132.5	136.0	137.4	.7	1.0	1.0	3.3	3.3	3.7
Service occupations	141.8	144.8	146.8	1.8	.6	1.4	4.3	3.9	3.5
Workers, by industry division									
Goods-producing 1/	134.1	137.7	139.0	.5	1.0	.9	3.3	3.2	3.7
Manufacturing	135.1	138.8	140.0	.5	1.0	.9	3.3	3.3	3.6
Service-producing 2/	144.2	148.7	151.4	1.6	.8	1.8	4.1	4.8	5.0
Services	154.0	158.4	162.4	2.4	.6	2.5	4.9	5.3	5.5
Health services	-	-	-	1.8	1.0	2.8	5.3	5.9	6.1
Hospitals	-	-	-	1.8	1.1	2.2	5.6	6.1	6.5
Educational services	-	-	-	-	.5	3.8	-	-	-
Public administration	148.9	151.8	155.0	1.7	.6	2.1	4.4	3.7	4.1
Nonmanufacturing	142.7	147.0	149.6	1.6	.8	1.8	4.1	4.6	4.8
Private industry workers	137.9	142.2	143.9	1.0	1.0	1.2	3.7	4.1	4.4
Workers, by occupational group									
White-collar occupations	142.4	147.3	149.3	1.1	1.0	1.4	3.9	4.6	4.8
Blue-collar occupations	131.9	135.4	136.7	.6	1.0	1.0	3.3	3.3	3.6
Service occupations	137.6	140.9	142.1	1.3	.6	.9	3.8	3.8	3.3
Workers, by industry division									
Goods-producing 1/	133.9	137.4	138.8	.5	1.0	1.0	3.3	3.2	3.7
Service-producing 2/	141.0	145.8	147.8	1.2	.9	1.4	3.9	4.7	4.8
State and local government workers	153.0	156.6	161.4	2.6	.5	3.1	4.7	5.0	5.5
Workers, by occupational group									
White-collar occupations	154.9	158.7	164.1	2.7	.4	3.4	4.9	5.2	5.9
Blue-collar occupations	143.5	146.8	149.6	1.7	.5	1.9	3.2	4.0	4.3
Workers, by industry division									
Services	155.6	159.3	165.0	3.0	.4	3.6	5.0	5.4	6.0
Excluding schools 3/	147.4	151.5	155.3	1.9	.9	2.5	4.4	4.7	5.4
Health services	-	-	-	2.4	1.1	2.7	4.8	5.9	6.3
Hospitals	-	-	-	2.3	1.3	2.9	-	5.5	6.1
Educational services	-	-	-	-	.4	3.8	-	-	-
Schools	158.0	161.7	168.1	3.3	.3	4.0	5.1	5.7	6.4
Elementary and secondary	159.7	163.3	170.2	3.5	.3	4.2	5.1	5.8	6.6
Colleges and universities	-	-	-	-	.4	2.9	-	-	-
Public administration	148.9	151.8	155.0	1.7	.6	2.1	4.4	3.7	4.1

- Data not available

NOTE See footnotes at the end of table 15

Oral Testimony

of

I. DWIGHT GREENSPAN

Director-Compensation

GTE Service Corporation

Stamford, CT

on

"GTE's Experience with Locality-Based Pay"

before

Committee on Government Affairs

United States Senate

March 21, 1990

GTE is a diversified multi-national corporation with revenues exceeding $17 billion, and a workforce of 180,000. In the United States, our 125,000 employees work in 48 states, and hundreds of communities.

My testimony today pertains to the roughly 35,000 U.S. management and professional employees for whom compensation and benefit plans are developed by our corporate headquarters.

Our experience with "locality-based" pay, or as we refer to it "zone structures" for this employee group dates back to January, 1982. Prior to that, GTE, like most companies at the time, administered these salaries within a single national structure or pay schedule.

During 1981, however, we first became concerned over this practice.

Reasons

-- In some locations, our operating unit people complained that the national pay ranges were too low to permit attracting qualified candidates; and often those hired commanded salaries so high as to cause what we refer to as "salary compression" in relation to the pay rates of existing longer service employees. In these same locations we also experienced retention problems as competing firms offered more than what our own national salary ranges would allow.

-- In other locations, the reverse situation existed -- with range minimums higher than necessary to attract qualified applicants and average pay reportedly exceeding prevailing community rates.

-- Our compensation managers were increasingly being pressured into tampering with job evaluation levels (higher or lower) to being their employees' salary opportunities more in line with actual labor market conditions.

-- Certain national surveys which started monitoring inter-industry pay and benefit patterns were indicating significant variability. Other surveys began to show growth in "at risk" variable compensation.

-- With rapidly rising relocation costs, recruitment efforts for all but fairly senior management jobs started shifting away from nationwide sourcing toward more local markets. This change began to affect the company's view of the importance of a single national structure in facilitating transfers.

Guidelines

Guided by this information, we began to reassess our long-held assumptions regarding the practicality of a single, national structure. The solution was not immediately clear, although we knew that:

- We could not abandon the national structure without solid and consistent market pay data for our locations and principal industries.

- Our research would need to extend beyond base salary data, into variable pay, and the value of benefits to allow us to form a picture of "total remuneration".

- Our methods had to be easily communicated.

- Since our concern was with establishing competitive market-based pay plans, we would be guided by prevailing community pay rates and not by cost-of-living indices.

- We were averse to using area "pay allowances" because of perceived administrative burdens and the difficulty of taking them away once granted.

- We wanted to avoid major administrative disruptions and employee morale problems.

- Our management was prepared to apply appropriate remedies to whatever level of the organizational hierarchy that market data suggested.

Approach

We proceeded with a commissioned, 22 region, 400 company survey. Benefit information would be obtained separately. Using computers, a vast amount of tabular information was translated into abbreviated graphical forms known as market pay lines. An analysis of these lines plus detailed information from other surveys led us to the following conclusions and actions:

- There appeared to be no direct correspondence between levels of pay and cost-of-living. We found examples of relatively high pay levels in areas with comparatively low cost-of-living (Dallas) and conversely, modes rates of pay in high cost-of-living areas (Honolulu).

- We found that the 22 regional market lines could be collapsed into five major groupings, or zone structures, with about a 7% difference between each (or a combined 28% effect high to low). These changes were implemented in a gradual phased-in manner.

- Significantly, a national market appeared to exist above $75,000 in total compensation (in '82 terms). Therefore, a single national structure was continued for these higher level jobs.

- Inter-industry differences did indeed exist, and in time several of our units adopted pay structures geared to their own industries.

- The value of our benefits package appeared consistent with that of other companies in our industries regardless of area, and therefore benefits were left intact.

Experience and Advantages

The new pay structures were implemented without immediately increasing or decreasing actual salaries; however, in subsequent years merit increase budgets were accelerated or decelerated, as appropriate, to allow average salaries to fall more in line with the new structures (and the local market).

The process was seen as a sound business decision because it arrested the sorts of attraction, retention and compression problems that I referred to earlier.

The established pay adjustment procedures relating to transfers between locations have been helpful.

Employee reaction to the new regional pay structures has been positive. Employees readily accepted the notion of tying their own pay opportunities to these found among other major employers within their own geographic area.

AFGE

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STATEMENT OF
JOHN N. STURDIVANT
NATIONAL PRESIDENT
AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES
(AFL-CIO)

BEFORE THE
SENATE GOVERNMENTAL AFFAIRS COMMITTEE
ON S.2274
"FEDERAL PAY COMPARABILITY REFORM ACT OF 1990"

MARCH 22, 1990

CONGRESSIONAL TESTIMONY

My name is John N. Sturdivant. I am the National President of the American Federation of Government Employees, AFL-CIO. On behalf of the more than 700,000 federal employees our union represents, I am pleased to have the opportunity to testify here today on the Federal Pay Comparability Reform Act of 1990. AFGE members work in agencies and programs throughout the government. We represent government workers in virtually every pay status. Reform of the federal pay system is therefore of the utmost importance to us.

Mr. Chairman, you have the gratitude and support of AFGE for your willingness to address the need for reform of the federal pay system. The legislation you introduced makes clear that you agree with us that this issue must be addressed immediately, not only as a matter of equity, but also as a matter of practicality.

There is no easy way to fix the federal pay system. The recognition of that fact is made abundantly clear in your bill. What is not as clear is a recognition of the fact that a real fix will cost money. My comments today are largely in support of the technical procedures set forth in S.2274. Whatever disagreements we may have over details remain secondary. I am here today to ask for a commitment to spend significantly more money on federal pay for rank and file government workers.

If fully implemented, the Federal Pay Comparability Reform Act of 1990 would cost the government roughly $1.3 to $2 billion more than it currently spends for federal pay. While we understand that this is a substantial sum, it is "small potatoes" with respect to the amount required to bring federal pay up to comparability with the private sector.

Please allow me to put this request into perspective. The present system does not prevent federal pay from being comparable to private sector pay. Indeed, comparability is now ostensibly required by law. But the present system has been abused. A recent study by the General Accounting Office (GAO) reported that Federal pay and benefits have been recalculated over the last ten years to save the government more than $119 billion. The government's failure to grant the annual adjustments recommended by the Pay Agent needed to attain comparability with the private sector has cost federal employees $74 billion in purchasing power. The practice of delaying pay increases until January has cost $2.2 billion. Together these two deviations from the system set up to assure comparability have denied federal employees over $76 billion in pay. When considered in this context, I believe that our reservations about reform which only provides an additional $1.3 to $2 billion seem reasonable.

Federal employees have suffered cutbacks in almost every area of compensation over the last decade. Each year we are presented with efforts to decrease spending on health insurance, pensions, cost of living adjustments for retirees, and staffing. It is time to reverse the era of relentless cutbacks. The government simply must begin to spend more on pay if it is to avert a crisis in hiring and retention.

S.2274 is particularly commendable because it takes on the restructuring of the federal pay system as a whole. As the Chairman is keenly aware, there has been a proliferation of legislative proposals over the past five years which seek to correct pay problems on a narrow, occupation specific, or agency basis. These piecemeal attempts to solve only the most visible compensation problems are not the answer. They do nothing but fragment the General Schedule system, create confusion and inequity, and move us further from the goal of comparability.

AFGE therefore supports overall pay reform because the problems with federal pay are systemic. Piecemeal approaches only treat the symptoms of the problem; we support the approach embodied in the proposed legislation because it goes to the cause.

Historical Background

In 1970, Congress enacted the Federal Pay Comparability Act, which assigned the President responsibility for setting pay. The Act created the body known as the Pay Agent. It formalized recommendations from employee groups by creating the Federal Employee Pay Council and established an independent, three member Advisory Committee on Federal Pay. The law also specified procedures for surveying pay rates in the private sector such as annual surveys to be conducted by the Bureau of Labor Statistics (BLS). Finally, the law provided that if either House of Congress adopted a resolution disapproving an alternative pay plan (submitted by the President), the comparability adjustments recommended by the Pay Agent would take effect.

Federal employees supported this law because it meant that their pay would finally be pulled out of the political process and would reflect what their counterparts were earning in the private sector. This was never meant to be a system for achieving equality with the private sector, largely because of the 18 month time lag between the issuance of the private sector data and the date the federal raises were made effective. The underlying goal of the system was a more modest standard: comparability between federal workers and their private sector counterparts.

The Pay Comparability Act led to a reasonable degree of comparability during the period from 1971 - 1977. Federal pay salaries were roughly equal to private sector salaries for similar occupations and work levels. Beginning in 1978, due to alternative pay plans citing national economic emergencies, adjustments fell substantially short of the recommendations provided by the Pay Agent. The August 1989 report of the Pay Agent concluded that based on the survey results, federal employees' salaries were on average 28.6 percent below the private sector.

The concept of comparability has been endorsed as the primary benchmark for setting federal white collar pay by virtually every formal body which has studied the issue, including the Hoover Commission (1949), the General Accounting Office, the Rockefeller Commission (1976), and most recently, the Volcker Commission (1989).

The Volcker Commission recommended that the 101st Congress enact legislation to change the process for making comparability adjustments. The Commission made the following recommendations:

- First, comparability should be retained as the principle for setting pay, but refinements should be added to address the pay gap in relevant local labor markets.
- Second, a decentralized, coordinated system should be designed for setting pay, modeled on the current system in effect for blue collar workers [Federal Wage System (FWS)] and taking into account lessons learned in the history of operations of that system.
- Finally, any new system should have phased implementation over a period of years to accommodate fiscal restraints and to provide for the orderly phasing out of experiments taken to counteract the pay erosion.

AFGE endorsed the Volcker Commission Report because it recognized the tremendous pay inequities which currently exist between the public and private sectors, and because it recommended an expansion of collective bargaining rights in the federal government. Our position is in support of collective bargaining which would give workers the right to have a direct voice in the decisions that affect their pay and working conditions.

The Federal Pay Comparability Reform Act of 1990

The Federal Pay Comparability Reform Act of 1990 includes several key points that AFGE believes are crucial for successful restructuring of the federal pay system. First is the principle of comparability with the private sector. As noted above, this is a principle that is both equitable to employees, and rational with respect to the government's needs as an employer in a market economy. The bill also marks the first time that state and local government pay will be used as a factor in determining comparability for both the General and locality schedules.

The bill mandates that General Schedule pay will be automatically adjusted each year by a percentage equal to the change in the Employment Cost Index (ECI). Using the ECI to adjust the rates in the General Schedule is the appropriate way to ensure that the large gap between federal and private sector pay which exists nationally will neither widen, nor arise again. This automatic annual adjustment will be included in the President's budget and will be effective October 1 of each year. This is a particularly important aspect of the bill which AFGE supports. AFGE looks forward to the day when there will no longer be alternative pay plans for one set of federal employees, while another is forced to struggle for an inferior pay adjustment. Most important, this provision will mean an end to the practice of forcing agencies to absorb the costs of pay raises. Any "fat" within government agencies has long been trimmed away through these and other means. The absorption of pay raises has turned into a nightmare of zero-sum decision making: Agencies are forced to cut back on staffing and services in one area in order to pay for salary adjustments for the remaining employees.

To begin implementing local labor market adjustments, the legislation provides for the establishment of local pay schedules where the average non-federal salary for a category of employees exceeds the national non-federal average for that (occupational) category. Separate pay relatives would be calculated for three categories of federal employees: Professional and administrative, technical and clerical, and others which are primarily law enforcement workers. It is estimated that approximately 500,000 federal employees would benefit from a locality adjustment under the established methodology.

Establishing different pay lines within a single locality on the basis of occupation is problematic for two reasons. The first is equity. AFGE believes that such a practice is likely to exacerbate comparable worth/pay equity problems which currently exist throughout the government. Paying each occupational group a separate locality differential not only perpetuates gender-based pay inequities, it may also widen the pay gap between female-dominated and male-dominated jobs in the federal sector.

To rectify this problem, we recommend that one pay line, covering the traditional Professional Administrative Technical and Clerical (PATC) occupational series, be established for each locality by blending the occupational data. This is consistent with the methodology established within the Federal Wage System

(FWS) which has worked well in this regard. This method has several points in its favor, including a sensitivity to differences in local market wages, and administrative simplicity.

The second problem is technical. The scope of the Bureau of Labor Statistics PATC survey covers only 36 occupations in various areas of the country. In some areas there are no appropriate job matches for the groups specified in the bill. We suggest that the Council be directed to determine the occupations to be surveyed, with due consideration given to the groups named in the bill.

The bill establishes a nine-member new Federal Pay Council to replace the existing Pay Agent, Federal Employees Pay Council, and the Advisory Committee on Federal Pay. The new Council would be responsible for determining the amounts of the General and locality adjustments based on the survey data provided by the Bureau of Labor Statistics (BLS). The Council would also work with BLS on establishing area boundaries for the locality adjustments.
Three studies are to be conducted under the Council's supervision, the most important of which must produce a plan to close any pay gap which remains after locality adjustments have been implemented.

Closing the nationwide pay gap is crucial for AFGE. As such, we find the schedule put forth in S.2274 for addressing this issue to be both too protracted and too cumbersome. We believe that a plan to close the gap should be devised at the outset of the process of pay reform, rather than after locality pay adjustments have been made. Further, we believe that the Council should be empowered to implement the recommendations made in order to close the gap.

The bill calls for the Federal Pay Council to be comprised of six representatives from management and only three from labor organizations, with the Director of OPM to serve as Chair. This composition is unacceptable to us. As an alternative, we would prefer the approach embodied in H.R. 3979, introduced by Representative Gary Ackerman (D-NY), which mandates an equal number of management and labor representatives to serve on the Pay Council, with an outside Chair selected by the Council members.

We also believe that the Council should have more than consultation responsibilities with regard to decisions such as the determination of occupational groupings, and areas to be surveyed. Finally, we believe that the legislation should give an explicit role to the Council with regard to establishing mechanisms for the resolution of disputes.

Under the existing method of setting the General Schedule pay, the President's broad authority to implement alternative pay plans has prevented federal employees as a group from achieving comparability with the private sector. Thus, we strongly support the intent of the legislation to limit the current authority of the President to reduce or deny salary increases to federal employees. We believe the goal of the bill is to forbid an alternative pay proposal by the President, except under conditions of wage and price controls. It appears, however, that the language of the bill itself would allow an alternative pay proposal in the case of a "national emergency" as well. As you know, Mr. Chairman, the existence of a "national emergency" has been invoked in each of the past 10 years to justify lowering the recommended pay increases for federal employees. We therefore urge the Committee to limit the President's authority to offer an alternative pay proposal to cases when wage and price controls have been imposed nationally.

One area of particular concern to AFGE is an assurance that no employee's salary will ever be lowered under a new pay system. This legislation includes provisions which hold the potential for an employee's salary to be lowered. The first such possibility arises with respect to the lack of protection afforded employees who might be transferred involuntarily by an agency which seeks to lower its salary costs by moving agency functions to lower wage areas. Likewise, there is no protection for an employee who might receive a promotion upon a transfer but whose salary could be reduced because the transfer is to an area with significantly lower wages. This problem could be solved, for example, by a "save pay" provision guaranteeing no reduction upon an involuntary transfer for a period of two years. Such a provision would be consistent with current law.

The legislation provides no protection to federal employees living in localities where because of recession, structural change in the economy, or other reasons, private sector wages may fall. To ensure confidence in a new locality pay system, we believe that a provision guarantying no pay reductions for federal employees is necessary.

The bill does provide for additional pay flexibilities by means of a continuation of special rates. AFGE endorses including among the criteria for granting such special rates exposure to hazards in the workplace. We believe that white collar employees should be granted the same hazard pay differentials currently provided to blue collar federal employees. The provision of "environmental" pay differentials for white collar employees is currently subject to the agencies' discretion. We urge the Committee to include in S.2274, language designed to extend to white collar employees coverage similar to that offered blue collar employees for hazardous work pay differentials.

Data Collection

We have serious concerns over the bill's mandate for the computation of local pay relatives. We fear that the requirement set forth in the bill takes the BLS beyond its current capabilities in data collection. Section 13 of the bill authorizes BLS to use commercially available data to supplement their data, as necessary. AFGE opposes the use of private data sources, both in terms of the questionable reliability of such data, and because there currently exists no commercial data bank sufficient to meet the pay setting demands of the government under the proposed bill. Either some alternative data gathering mechanism should be set forth in the bill, or the BLS should be given the resources explicitly designated for data collection for use in setting federal pay.

One of the consistent problems faced by BLS and federal agencies in conducting surveys is the refusal by certain large private sector firms to participate. This experience is well documented in the FWS. AFGE believes that this bill provides an excellent opportunity to remedy this problem. Specifically, the legislation could mandate that any company or individual which enters into a contract with the government must agree to cooperate fully with, and participate in, surveys conducted by BLS pursuant to this Act.

Law Enforcement Personnel and Federal Fire Fighters

AFGE strongly supports the provisions of S.2250, the Federal Law Enforcement Pay Reform Act, introduced by Senator Dennis DeConcini (D-AZ) on March 7, 1990. As the Chairman is aware, I served as one of the Commissioners on the National Advisory Commission on Law Enforcement. S.2250 reflects the broad consensus of the Commission's findings with respect to law enforcement compensation issues. This bill is necessary, because it is the only way in which the federal government will be able to hire and retain sufficient numbers of law enforcement officers to wage the war on drugs, deal with immigration problems, and carry out its other responsibilities with respect to the criminal provisions of the United States Code. It is for these reasons that AFGE departs from its general position and supports this occupation specific pay reform measure.

The current problems associated with federal firefighters' pay result from the method of calculating their base and overtime pay. H.R. 3773, introduced by Representative Mary Rose Oakar (D-OH), would remedy the compensation inequities faced by firefighters by making their computation of pay consistent with other Title 5 employees. It does not seek a separate pay schedule. Under H.R. 3773, firefighters would continue to be paid under the General Schedule, but the computational problems would be solved. Thus, we urge the Committee to consider seriously including the provisions of H.R. 3773 in S.2274.

Internal Consistency and Overall Comparability

Finally, we believe it is inequitable to retain the existing pay caps on federal blue collar workers when the new General Schedule pay system will include a locality adjustment without caps. Mr. Chairman, we would appreciate your support in addressing this issue, which we believe would strengthen the fairness and integrity of the bill, and federal pay practice generally.

Conclusion

Mr. Chairman, I would like to thank you once again for inviting me here to testify today on this important legislation. I would also like to express my appreciation to you and your staff for placing such a high priority on federal pay reform, and for taking such a wise approach in this bill. While we have reservations about some key aspects of the bill, we are convinced that a consensus can be built upon this legislation that will lead to the development of a credible pay system for federal employees that is fair to both the employees and the taxpayers.

We look forward to working with you and members of your staff on this legislation. If you or any member of the Committee have any questions, I would be happy to respond.

NATIONAL
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STATEMENT OF

THE NATIONAL FEDERATION OF FEDERAL EMPLOYEES

BEFORE

THE COMMITTEE ON GOVERNMENTAL AFFAIRS

REGARDING:

THE FEDERAL PAY COMPARABILITY ACT OF 1990
(S. 2274)

MARCH 22, 1990

CHAIRMAN GLENN AND DISTINGUISHED MEMBERS OF THE COMMITTEE:

ON BEHALF OF THE MORE THAN 150,000 FEDERAL EMPLOYEES THAT THE NATIONAL FEDERATION OF FEDERAL EMPLOYEES (NFFE) REPRESENTS, I WOULD LIKE TO THANK YOU FOR HOLDING HEARINGS ON THIS VITAL SUBJECT. WE ALL KNOW THAT FEDERAL PAY IS AT AN ALL-TIME LOW WHEN COMPARED TO PRIVATE SECTOR PAY RATES. WHAT WAS ONCE CALLED A PAY GAP, HAS BECOME A PAY CHASM INTO WHICH FEDERAL EMPLOYEES ARE FALLING. CLEARLY SOMETHING MUST BE DONE AND THESE LEGISLATIVE HEARINGS ARE A POSITIVE FIRST STEP.

NFFE COMMENDS SENATOR GLENN AND CONGRESSMAN ACKERMAN FOR HAVING THE COURAGE AND STRENGTH TO INTRODUCE BILLS WHICH ADDRESS THE PROBLEMS OF PAY IN THE FEDERAL SECTOR. OVER THE PAST SEVERAL YEARS MANY HAVE TALKED ABOUT THE PROBLEM AND THE NEED TO ATTAIN FEDERAL PAY COMPARABILITY WITH THE PRIVATE SECTOR. NOW WE HAVE TWO CONCRETE LEGISLATIVE MEANS TO BRIDGE THE COMPARABILITY CANYON. SENATOR GLENN'S BILL, S. 2274, PROVIDES A VALUABLE FIRST STEP TOWARD PAY REFORM. AT THE SAME TIME, CONGRESSMAN ACKERMAN'S BILL, H.R. 3949, OFFERS A SOLUTION TO THE PAY CRISIS. NFFE BELIEVES THAT THE PAY GAP MUST BE CLOSED. IN THIS LIGHT, WE ULTIMATELY PREFER A LEGISLATIVE CHANGE THAT IMMEDIATELY WORKS TOWARD CLOSING THE SIGNIFICANT WAGE DISPARITY BETWEEN THE PUBLIC AND PRIVATE SECTOR.

DESPITE THEIR IMPORTANCE, PERHAPS NO OTHER SEGMENT OF THE

COUNTRY'S WORKFORCE HAS TAKEN SUCH A HARSH BEATING, BOTH THROUGH POLITICAL RHETORIC AND THE POCKETBOOK, AS HAVE FEDERAL EMPLOYEES. MANY PEOPLE FORGET THAT AMERICA'S CIVIL SERVANTS HAVE BEEN RESPONSIBLE FOR SOME OF OUR MOST IMPORTANT AND SIGNIFICANT ADVANCES. WHEN DISASTER STRIKES, CIVIL SERVANTS ARE DISPATCHED TO AID THE AFFECTED FAMILIES. CIVIL SERVANTS, MANY OF THEM NFFE MEMBERS, RISKED THEIR LIVES TO BRING THE FOREST FIRES THAT RAVAGED THE WEST COAST IN 1988 UNDER CONTROL. CURRENTLY, CIVIL SERVANTS ARE SEARCHING FOR CURES TO AIDS AND CANCER IN THE PAST, THEIR WORK WAS EQUALLY VITAL IN FINDING CURES FOR POLIO, RUBELLA AND THE MEASLES. NFFE MEMBERS FROM THE CORPS OF ENGINEERS ARE STILL ASSISTING THE HURRICANE RAVAGED COMMUNITIES IN THE CARIBBEAN AND LAST MONTH, CLAYTON CUTTER, A NFFE MEMBER FROM THE FOREST SERVICE DROWNED WHILE VALIANTLY TRYING TO SAVE SIX PEOPLE WHO HAD FALLEN THROUGH THE ICE. SIMPLY PUT, CIVIL SERVANTS WORK HARD FOR AMERICA EVERY DAY; THEY DESERVE TO BE FAIRLY COMPENSATED.

SENATOR, WE ACKNOWLEDGE THAT ANY MEANINGFUL PAY REFORM IS GOING TO COST MONEY. WE BELIEVE THAT EVEN IN THIS TIME OF FISCAL CRISIS, MONEY MUST BE APPROPRIATED TO PAY OUR PUBLIC SERVANTS WHAT THEY DESERVE. WE ARE NOT ASKING THAT CONGRESS GIVE WORKERS A 28% RAISE TOMORROW; THAT WOULD BE UNREALISTIC. IT IS POSSIBLE, HOWEVER, TO SPREAD OUT THE NECESSARY SALARY ADJUSTMENTS TO CLOSE THE GAP OVER TIME. THE KEY IS TO CLOSE THE GAP. ANYTHING ELSE WOULD BE UNFAIR

TO FEDERAL WORKERS AND WOULD CONTINUE TO DRAIN THE PUBLIC SERVICE OF ITS MOST VALUABLE RESOURCE -- INTELLIGENT AND HARDWORKING PEOPLE.

WHEN A NEW SYSTEM THAT PROVIDES FAIR PAY IS IMPLEMENTED, THE GOVERNMENT MUST ALSO PUT TO REST THE IDEA OF PAY ABSORPTION. NEW MONEY MUST BE APPROPRIATED TO MAKE PAY REFORM A REALITY. IF RAISES ARE IMPLEMENTED AND AGENCIES MUST ABSORB THE BRUNT OF THE RAISE, THE RESULTS CAN BE DEVASTATING.

ONE STARK EXAMPLE COMES FROM A NFFE LOCAL AT THE NORTHPORT VA HOSPITAL IN NEW YORK. BECAUSE OF BUDGET CUTS AND PAY ABSORPTION, THE NORTHPORT VA HAS SUFFERED LARGE STAFF REDUCTIONS. THE OBVIOUS RESULT IS THAT QUALITY HEALTH CARE IS NOT ALWAYS PROVIDED. ABSORPTION HAS NOT ONLY CREATED A CUT BACK IN MEDICAL PERSONNEL BUT HAS ALSO REDUCED THE NUMBERS OF PEOPLE WHO WORK IN THE PHYSICAL PLANT BY MORE THAN 50 PERCENT. FOR INSTANCE, ONCE THE NORTHPORT FACILITY HAD FOUR BUILDING CUSTODIAL WORKERS PER BUILDING. THEIR RESPONSIBILITIES INCLUDED LAUNDRY, CLEANING AND GENERAL JANITORIAL WORK. NOW THERE IS ONLY ONE CUSTODIAL EMPLOYEE FOR AN ENTIRE BUILDING. THE UNDER STAFFING OF BUILDING CUSTODIAL PERSONNEL HAS CAUSED PATIENTS TO GO WITHOUT FRESH LINENS OR CLOTHING AND HAS FORCED NURSES TO PERFORM TASKS UNRELATED TO DIRECT PATIENT CARE. PATIENT CARE HAS SUFFERED ACCORDINGLY. THIS IS BUT ONE EXAMPLE OF THE HARMFUL EFFECTS OF PAY ABSORPTION.

IN ITS REPORT, THE VOLCKER COMMISSION CITED SCORES OF PROBLEMS THAT ARISE FROM POOR PAY. ONE SPECIFIC EXAMPLE COMES FROM ANTHONY FAUCI, THE DIRECTOR OF THE NATIONAL INSTITUTES OF HEALTH, WHO LONG AGO REALIZED THE DRAIN ON SKILLED RESOURCES THAT POOR PAY HAS CAUSED. FAUCI STATED "OVER THE LAST DECADE, [THE NATIONAL INSTITUTES OF HEALTH] HAVE NOT BEEN ABLE TO RECRUIT A SINGLE SENIOR RESEARCH SCIENTIST FROM THE PRIVATE OR ACADEMIC SECTORS TO ENGAGE IN INDEPENDENT CONDUCT OF CLINICAL OR BASIC BIOMEDICAL RESEARCH PROGRAMS." WHEN HIGHLY QUALIFIED MEDICAL PERSONNEL ARE FOUND TO WORK AT NIH, THEY ARE USUALLY ACQUIRED THROUGH GRANTS FROM THE NATIONAL SCIENCE FOUNDATION AND ONLY WORK AT NIH FOR A LIMITED TIME. THUS, THERE IS RARELY A COHESIVE RESEARCH PROGRAM BASED ON A FOUNDATION OF CAREER CIVIL SERVANTS. ONCE THERE WAS A CLARION CALL TO PUBLIC SERVICE; NOW FOR REASONS LIKE POOR PAY, THE BEST AND THE BRIGHTEST SCOFF AT THE IDEA OF PUBLIC SERVICE.

NFFE REPRESENTS APPROXIMATELY 15,000 MEN AND WOMEN IN THE U.S. FOREST SERVICE. USUALLY THEY ENTER THE SERVICE AT THE GS-4 LEVEL BUT BECAUSE OF THE NATURE OF THE WORK, THEY OFTEN PERFORM WORK WHICH IS CLASSIFIED AT MUCH HIGHER GRADES. SOME OF THESE MEN AND WOMEN RISK THEIR LIVES ON THE TIMBER LINES FIGHTING FOREST FIRES FOR LESS THAN $20,000 A YEAR. IN CALIFORNIA, MANY OF OUR MEMBERS WORK FOR THE FOREST SERVICE FOR ONE YEAR TO RECEIVE TRAINING AND THEN LEAVE TO

DOUBLE THEIR SALARY WORKING FOR THE STATE OF CALIFORNIA. THE TOLL ON THE FOREST SERVICE IS DEVASTATING. WORKERS CANNOT BE RETAINED AND THOSE WHO DO STAY ARE THREATENED BY CONSTANTLY WORKING WITH INEXPERIENCED PEOPLE. THIS IS BUT ONE EXAMPLE OF HOW POOR PAY CAN ENDANGER PEOPLE'S LIVES.

WE WOULD NOW LIKE TO TURN YOUR ATTENTION TO THE REFORM PROPOSALS. NFFE APPLAUDS THE INCORPORATION OF THE EMPLOYMENT COST INDEX (ECI) INTO THE PAY REFORM BILLS INTRODUCED IN BOTH THE SENATE AND THE HOUSE. AS THE COMMITTEE ALREADY KNOWS, UTILIZATION OF PRIVATE SECTOR COST OF LABOR DATA HAS BEEN SHOWN TO BE A CREDIBLE MEANS OF MAINTAINING PUBLIC SECTOR-PRIVATE SECTOR PAY COMPARABILITY. FURTHERMORE, CONTINUED USE OF THE ECI WILL ENSURE THAT THE PAY GAP DOES NOT GROW ANY LARGER.

THE IMPLEMENTATION OF AN AUTOMATIC ECI TRIGGER IS LAUDABLE FOR ANOTHER REASON -- IT IMMUNIZES FEDERAL PAY FROM POLITICAL POSTURING. BY LIMITING THE ABILITY TO OFFER ALTERNATIVE PAY PLANS, S. 2274 WILL PROVIDE A FAIR APPROACH UNDER WHICH ALL GENERAL SCHEDULE EMPLOYEES WILL AUTOMATICALLY RECEIVE A PAY RAISE COMPARABLE TO THAT WHICH PRIVATE SECTOR EMPLOYEES RECEIVED THE PREVIOUS YEAR. HOWEVER, AS THE LANGUAGE IS CURRENTLY WRITTEN, THE PRESIDENT HAS THE AUTHORITY TO OFFER A DIFFERENT PAY PLAN IF A NATIONAL EMERGENCY OR NATIONAL WAGE-PRICE CONTROLS ARE IN EFFECT. NFFE BELIEVES THAT THE ONLY TIME THAT THE PRESIDENT

SHOULD BE ALLOWED TO OFFER A PAY RAISE DIFFERENT FROM THE ECI IS WHEN WAGE AND PRICE CONTROLS ARE IN EFFECT.

WHILE S. 2274 OFFERS A POSITIVE FIRST STEP TOWARD SOLVING THE PAY CRISIS, NFFE HAS SEVERAL QUESTIONS AND RESERVATIONS ABOUT THE BILL. I WANT TO MAKE IT CLEAR FROM THE OUTSET THAT OUR COMMENTS SHOULD NOT BE CONSTRUED AS TOTALLY UNSUPPORTIVE OF THE BILL. AS I SAID EARLIER, WE ARE GRATEFUL THAT STEPS ARE BEING TAKEN TO RESOLVE THE PAY CRISIS. HOWEVER, WE MUST CLEARLY STATE OUR PROBLEMS AND HOPEFULLY WORK TOWARD RESOLVING THEM.

ONE SECTION OF THE BILL THAT MUST BE CHANGED IS THE ADVISORY COUNCIL AND THE MEANS BY WHICH IT IS ESTABLISHED. AS WRITTEN, ONLY ONE-THIRD OF THE COUNCIL WILL INCLUDE EMPLOYEE REPRESENTATIVES WHILE TWO-THIRDS WOULD INCLUDE ADMINISTRATION APPOINTEES. SUCH AN IMBALANCE IN REPRESENTATION CONTRADICTS THE VERY CONCEPT OF A JOINT COUNCIL. FURTHERMORE, THE LANGUAGE IS WRITTEN SO BROADLY THAT ONE OR ALL OF THE THREE UNIONS THAT REPRESENT THE LARGEST NUMBER OF FEDERAL EMPLOYEES MAY BE LEFT OFF THE COUNCIL. NFFE CANNOT SUPPORT THE COUNCIL IN ITS CURRENT FORM. WE SUGGEST THAT THE GOVERNMENTAL AFFAIRS COMMITTEE ADOPT LANGUAGE SIMILAR TO THAT USED IN THE DEVELOPMENT OF THE FEDERAL PREVAILING RATE ADVISORY COMMITTEE (5 U.S.C. SEC. 5347 (a)(6)). SUCH AN ADAPTATION WOULD ENSURE THAT THOSE GROUPS WHICH REPRESENT THE MOST FEDERAL EMPLOYEES CAN

VOICE THEIR CONCERNS AT THE VITALLY IMPORTANT COUNCIL MEETINGS. WE ALSO SUGGEST THAT A GREATER BALANCE IN THE RATIO BETWEEN EMPLOYEE REPRESENTATIVES AND ADMINISTRATION APPOINTEES BE ESTABLISHED.

AS HAS BEEN OUR HISTORY, NFFE HAS RESERVATIONS REGARDING LOCALITY PAY AND THE MEANS IN WHICH IT IS IMPLEMENTED. WE BELIEVE IT IS ESSENTIAL TO MAINTAIN A NATIONAL PAY LINE. WE CANNOT AND WILL NOT SUPPORT ANY FORM OF LOCALITY PAY IF THERE IS NOT A STANDARD MINIMUM PAY LINE AND ALL FEDERAL EMPLOYEES DO NOT GET AN ANNUAL RAISE. BY GRANTING THE ANNUAL ECI, THE GLENN BILL HAS TAKEN THIS CONCERN INTO ACCOUNT AND DOES NOT DIVERGE FROM THE CURRENT NATIONAL PAY LINE. IN ESTABLISHING ITS LOCALITY BASE, HOWEVER, S. 2274 RUNS THE RISK OF CREATING THREE PAY LINES FOR ONE GRADE IN A GIVEN AREA. IN SHORT, UNDER THE GLENN BILL AS IT IS WRITTEN, TWO GS-9'S COULD BE EARNING DIFFERENT SALARIES IN THE SAME LOCALITY. FOR EXAMPLE, IF IN SURVEYING TECHNICAL AND CLERICAL WORKERS IN CLEVELAND A 15% DIFFERENTIAL IS FOUND, THOSE EMPLOYEES WOULD GET A RAISE TO CLOSE THAT DIFFERENCE. AT THE SAME TIME LET'S ASSUME THAT A PROFESSIONAL IN THAT SAME AREA AND AT THE SAME GRADE HAS A 25% DIFFERENTIAL. CONCEIVABLY, ONE PERSON WITH A GS-9 RATING COULD MAKE 10% MORE THAN HIS OR HER NEIGHBOR DOWN THE HALL WHO HAS THE SAME GS-9 RATING. SUCH A SITUATION COULD BE DEVASTATING TO THE MORALE OF FEDERAL WORKERS.

ONE SOLUTION TO MINIMIZE THIS PROBLEM IS TO WORK ON UPDATING THE CAREER CLASSIFICATION SERIES SO THAT POSITIONS ARE PLACED ON THE GRADE SCALE AT THE APPROPRIATE PAY LEVELS. HAD THE CAREER SERIES BEEN PROPERLY UPDATED IN THE EXAMPLE I OFFERED, THE PROFESSIONAL EMPLOYEE MIGHT MORE CORRECTLY BE A GS-10 RATHER THAN A GS-9. HE OR SHE WOULD STILL RECEIVE THE SAME MONETARY RAISE BUT THE PAY LINE WOULD LIKELY REMAIN UNBROKEN AND STRAIGHT AND MORALE WOULD NOT BE DISRUPTED.

A MAJOR FLAW IN THE BILL IS THAT IT DOES NOTHING TO ADDRESS PAY EQUITY. IN FACT, THROUGH THE USE OF PAY RELATIVES AND THREE SEPARATE OCCUPATIONAL CATEGORIES, THE BILL MAY SERVE TO PERPETUATE AND REINFORCE PAY INEQUITIES WHICH ARE COMMONPLACE IN OUR SOCIETY. WE BELIEVE THAT THE BILL'S FAILURE TO ADDRESS THE PAY EQUITY ISSUE IS A POTENTIALLY HAZARDOUS DEFECT IN THE LEGISLATION.

ANOTHER QUESTION RAISED BY S. 2274, IS THE CONCEPT OF PAY RELATIVES. WHILE PAY RELATIVES WILL GRANT IMMEDIATE RAISES TO MORE THAN 500,000 FEDERAL WORKERS, THEY DO NOT TRULY ADDRESS PAY COMPARABILITY. AS I EXPLAINED EARLIER IN MY TESTIMONY, WE ARE VERY CONCERNED ABOUT THE PAY GAP. WE ARE CONCERNED THAT A HALF MEASURE SUCH AS PAY RELATIVES, MIGHT TAKE THE PRESSURE OFF TO REFORM THE SYSTEM BUT WOULD ONLY ACT AS A BAND-AID. FURTHERMORE, PAY RELATIVES ARE CONFUSING CONCEPTUALLY BECAUSE THEY COMPARE NON-FEDERAL PAY IN A GIVEN AREA WITH NON-FEDERAL PAY NATIONWIDE. IT WOULD BE DIFFICULT

TO EXPLAIN THE INTRICACIES OF SUCH A SYSTEM TO FEDERAL EMPLOYEES. THEREFORE, THE NEW SYSTEM MAY LACK THE INTERNAL CREDIBILITY NECESSARY TO ANY SUCCESSFUL COMPENSATION SYSTEM.

NFFE FIRMLY BELIEVES THAT ANY NEW PAY SYSTEM MUST MINIMIZE THE OCCASIONS WHEN SPECIAL PAY RATES ARE NECESSARY. HOWEVER, IN CASES WHERE THE NEED FOR THE SPECIAL PAY RATE IS APPARENT, THE AGENCIES MUST BE ABLE TO REACT QUICKLY. UNFORTUNATELY, THE PAY REFORM PROPOSALS EXPAND THE CONDITIONS UNDER WHICH SPECIAL PAY RATES MAY BE OFFERED BUT DO NOT PROVIDE FOR THE FACILITATION OF THE IMPLEMENTATION OF SPECIAL PAY RATES. CURRENTLY, THE SPECIAL PAY RATE AUTHORITY IS VESTED WITH THE PRESIDENT. THE GLENN BILL DOES NOT CHANGE THIS. UNFORTUNATELY, UNTIL RATHER RECENTLY, THE ADMINISTRATIONS HAVE BEEN EXCESSIVELY PARSIMONIOUS WHEN IT CAME TO IMPLEMENTING SPECIAL PAY RATES. IN ORDER TO CORRECT THIS SITUATION, WE PROPOSE THAT THE SPECIAL RATE AUTHORITY BE DELEGATED TO INDIVIDUAL AGENCIES AND THAT IMPLEMENTATION OF SPECIAL PAY RATES BE SUBJECT TO COLLECTIVE BARGAINING BETWEEN EXCLUSIVE REPRESENTATIVES AND AGENCIES AT THE LEVEL OF RECOGNITION. WE RECOGNIZE, OF COURSE, THAT THE NECESSITY FOR SPECIAL PAY RATES WILL DECREASE WHEN THE COMPARABILITY GAP IS CLOSED. HOWEVER, WHILE THE SPECIAL RATES ARE IN EFFECT, THE STANDARDS AND LEVELS SHOULD BE SET BY EACH INDIVIDUAL AGENCY.

FINALLY, THE BILL CALLS FOR A STUDY, TO BE REVIEWED BY THE

COUNCIL, ON THE BENEFITS OF PAY FOR PERFORMANCE. REPUBLICAN AND DEMOCRATIC ADMINISTRATIONS HAVE HAD OVER TEN YEARS TO DEMONSTRATE THAT AN EFFECTIVE PAY FOR PERFORMANCE SYSTEM CAN BE CREATED BUT THEY HAVE FAILED TO DO SO. BY LEGISLATIVELY MANDATING A PAY FOR PERFORMANCE STUDY, THE BILL WOULD LEND CREDENCE TO AN AILING IDEA.

MR. CHAIRMAN, PAY IS PERHAPS THE ISSUE OF MOST CONCERN TO OUT MEMBERSHIP. THE SITUATION HAS BECOME SO VOLATILE THAT IT MAY EXPLODE IN OUR FACES. THROUGHOUT THE WORLD, PUBLIC SERVICE IS VIEWED WITH PRIDE AND HONOR -- PEOPLE WANT TO WORK FOR THEIR GOVERNMENT. ACCORDINGLY, THEY ARE COMPENSATED FAIRLY AND EQUITABLY. WE MUST WORK TO IMPLEMENT A PAY SYSTEM IN AMERICA THAT ATTRACTS THE BEST PEOPLE INTO PUBLIC SERVICE. IN THE FY 1991 BUDGET, THE PRESIDENT HINTS AT PAY REFORM BY DESIGNATING A MERE $328 MILLION TOWARD A PAY PACKAGE. HOWEVER, NONE OF THIS MONEY IS NEWLY ALLOCATED; ALL IS ABSORBED BY THE AGENCIES. IN THE PAST, THE ADMINISTRATIONS HAVE SAID "PAY REFORM MUST BE REVENUE NEUTRAL." NOW THEY SAY "PAY REFORM MUST SAVE MONEY." WE CAN NOT ENACT MEANINGFUL CHANGE WITHOUT SPENDING MONEY. PRESIDENT BUSH HAS PRAISED PUBLIC SERVICE. IT'S TIME TO SEE IF THE PLEDGE TO REFORM THE FEDERAL PAY WILL ACTUALLY PROVIDE FEDERAL EMPLOYEES WITH FAIR AND COMPARABLE PAY. THE TIME TO IMPLEMENT CHANGE IS NOW; WITH THE "QUIET CRISIS" AND THE BRAIN DRAIN WE CAN'T AFFORD NOT TO PAY FEDERAL EMPLOYEES FAIRLY.

MR. CHAIRMAN, WE APPRECIATE THE OPPORTUNITY TO TESTIFY BEFORE YOU AND WOULD BE PLEASED TO ANSWER ANY QUESTIONS YOU MAY HAVE.

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Statement of Robert M. Tobias
National President
National Treasury Employees Union

before the
Senate Governmental Affairs Committee
Chairman John Glenn
on

S.2274,
THE FEDERAL EMPLOYEES PAY COMPARABILITY ACT OF 1990

Dirksen Senate Office Building
Washington, DC

March 22, 1990

Mr. Chairman, I'm Robert Tobias, President of the National Treasury Employees Union. On behalf of the 140,000 federal employees represented by NTEU I'd like to thank you for your leadership on the issue of fair pay for federal workers and for this opportunity to comment on your bill, S.2274, The Federal Pay Comparability Reform Act of 1990.

As you well know, Mr. Chairman, the white-collar compensation system for federal employees is in a shambles. I know you have been under intense pressure from many of your colleagues to allow special compensation systems for select groups of employees. Senators with jurisdiction over a particular program no doubt understand that the people charged with implementing the policy they set are underpaid, that there are recruitment and retention problems, that applicants are not qualified or that well-trained, experienced people don't stay. But, what such a Senator may not understand is that it is not just his or her programs that are suffering; it is a government-wide problem. I particularly want to thank you, Mr. Chairman, for your understanding of that and your insistence that we undertake a system-wide solution to the problem.

The current pay gap between federal employees and their private sector counterparts as determined by the President's Pay Agent is 28.6%. That is the National average of how far behind federal employees are. In some areas of the country the gap is much bigger. And the impact is causing severe problems in recruitment and retention.

According to a report by the New Jersey Federal Executive Board, a Treasury agency in Northern New Jersey advertised nationwide for a top level GM-15 executive. Only 3 candidates applied. They finally hired someone from Florida who quit after one day, and returned to Florida, reportedly because of the high cost of housing. The same agency had to announce a GM-14 mid-level position 3 times nationwide and received only 3 applicants, 2 of whom were already located in Northern New Jersey.

In New York, the Internal Revenue Service must hire and train two candidates for every vacancy due to the 50% drop-out/failure rate in its training programs. Many of the accounting recruits who complete the IRS training quickly move into metropolitan firms for big pay raises.

A starting salary for a Customs Officer in San Francisco is $16,305 (GS-5), while a San Francisco police officer can start at nearly double that salary. The average home price in San Francisco is $246,200.

There is currently a patchwork of plans aimed at addressing the most acute recruitment and retention problems. In New York, the FBI has received authority to pay large recruiting bonuses and a 25% pay increase. The FAA and FDIC are experimenting with increased pay for workers in high-cost areas of the country, and special salary rates are now being paid to fully 10% of the federal workforce.

While there may be merit in many of these plans that are flourishing, there is an underlying unfairness because the majority of federal employees are not covered by any of them. Most of the plans are restricted to a small number of employees in certain occupations within certain agencies. Under the current special salary rate system even if an agency wants to pay more for a certain occupation in a certain area, it must request permission from OPM and in some instances we believe that agencies have been urged by OMB not to request a special salary rate because of the budget implications. Unfortunately, the pay crisis has become so serious throughout the federal government that there is no more time to conduct these small-scale experiments.

We need a solution to the pay problem that will work for all federal employees. We need to move quickly to enact and implement a new across-the-board federal pay-setting process and I believe it is time to consider the economic discrepancies that exist between our major metropolitan areas and our rural towns in developing that new system.

The first and most important factor to be addressed in moving to a new pay plan is costs. It must be understood by all that a satisfactory plan cannot be budget neutral. More money is needed to fix the horrendous problems facing the federal compensation system today. The Administration and Congress need to recognize that simple fact or the time and resources spent on revamping a process will be for nought.

I am encouraged that the House and Senate, Administration and employee organizations all seem to be in agreement that, 1) there is a serious problem; and 2) now is the time to begin fixing it.

There also seems to be agreement that a new pay-setting system should take into account the wide differences in the costs of labor and living in different areas of the country. I am hopeful that all sides can agree on a plan that can be implemented this year. Federal employees can wait no longer.

I believe your bill and one introduced in the House by Congressman Ackerman have the correct formula for pay reform: automatic across-the-board annual increases supplemented by additional pay by locality for employees where federal pay lags behind pay in the private sector. Both bills would require that all employees be paid a percentage increase equal to the annual increase in the Employment Cost Index, a measurement of white collar wages and salaries in the private sector now conducted by the Bureau of Labor Statistics. We believe the Employment Cost Index is a fair indicator of private sector pay and its use would be in keeping with the principle that federal sector pay should be comparable with pay in the private sector. The ECI will also be the yardstick used for setting pay for Members of the House of Representatives since passage of the Ethics Reform bill. Both your bill and Congressman Ackerman's would also provide for locality payments, though the methods of determining the amounts differ.

In many ways more important than what measurement is used is how the arrived upon increase is implemented. We strongly believe that these annual increases must be automatic. The limited discretion currently available to the President as to whether to pay an annual comparability increase has been grossly abused.

While the Pay Comparability Act of 1970 requires federal pay to be comparable to the private sector, Presidents have routinely used a loophole in the Act under which comparability increases can be denied in the case of a "national emergency affecting the general welfare" to deny the raises.

Federal employees received their last full comparability increase in 1977. Since then, each year the President has declared that a comparability raise could not be paid because of a "national emergency affecting the general welfare." In light of the current and previous Administration's glowing characterizations of the country's economic health, I find it difficult to imagine just what national emergency or emergencies we have faced every year for the last 13 years that have prevented a comparability raise from going into effect.

Ironically, the indiscriminate and disingenuous use of the national emergency exception in the Pay Comparability Act is itself causing a real national emergency.

With this background in mind, I would like to point out a potential problem in section 6(e) of S.2274. It is my understanding that it is your intent that annual adjustments to pay based on formulas set forth in this bill be automatically paid and not subject to Presidential discretion unless wage and price controls are in effect for the private sector. That is a standard that we think is fair and equitable. However, the language of section 6(e) states the President could limit or not implement the adjustments, "in the event of national emergency or economic conditions affecting the general welfare that requires the imposition of national wage-price controls." Section 6(e) further states that any adjustments so deferred "shall be implemented after the termination of such national emergency or wage-price controls." Due to our experience with the tortured use of the "national emergency" exception in current law we are very concerned that the Administration would construe this section to mean that adjustments could be limited or not implemented if wage and price controls were in effect or in the event of a national emergency. And we all know that the national emergency standard is any standard the Administration submits, or, in practice, no standard at all. We would suggest that section 6(e) be clarified to read that annual adjustments could be limited or not implemented "due to wage-price controls being in effect for the private sector," and that any adjustments so deferred "shall be implemented after the termination of such wage-price controls."

Turning to the locality-based adjustments contemplated in S.2274, they would be included in base pay for purposes of setting benefits such as retirement, life insurance, lump-sum leave payments, and severance pay. Special pay rates are currently included in base pay for these purposes. We believe this is extremely important and support this provision. The locality-based adjustments would not be included in base pay for purposes of pay retention if an employee transfers to a locality with a differing locality-based pay rate. While we believe this is fair on its face we would like to see some protection for employees so that they could not be transferred to lower cost areas on a management whim or to ease the end of the year budget crunches that many agencies face.

Locality adjustments under S.2274 would be determined by the use of "pay relatives," which would compare categories of non-federal pay within a given geographic area to the national non-federal average for those categories. Those areas with non-federal pay levels above the national average would be entitled to locality adjustments. Areas below the national average would not be faced with any decrease in pay and would continue to receive annual increases equal to the Employment Cost Index. We believe this is an extremely important feature of the bill. While we think it's important to bring up pay levels where employment costs are highest we want to insure that those employees who are currently in rough competition with their local private-sector counterparts do not bear the brunt of such increases. Yearly ECI adjustments would continue to keep them competitive. We do have grave concerns, however, about the method of determining the locality adjustments.

This system will indeed find the areas of the country where private sector pay is the highest, but when it comes to determining locality adjustments it will not factor in the 28% federal to non-federal pay gap since it only compares non-federal pay within a locality to the national average of non-federal pay. Thus, any locality adjustments would not make federal employee pay within a given area "comparable" to non-federal pay in that area. While I concede a necessity to close the pay gap over a period of time due to the current federal budget crisis, I cannot support this approach because it does not embrace the basic principle of comparability. I understand that S.2274 calls for a study, due in three years, on how best to close the remaining pay gap and reinstate comparability, but I'm afraid after many years of working on behalf of federal employees I do not have the faith necessary to accept such a solution. The concept of comparability must be reflected in any new pay-setting system. I am convinced that if that concept is dropped, even for a short period, it will be lost forever.

I would much prefer to see a system that compares federal pay within a locality to non-federal pay within that locality and sets out to make up the difference over a period of time. Such a system would, when fully implemented, make federal pay comparable with non-federal pay as measured on a locality to locality basis, rather than on the basis of a national average, which is becoming more and more meaningless.

Another concern I have with the locality-adjustment portion of S.2274 is that not enough localities will initially qualify for adjustments. According to OPM there are very few areas of the country where federal pay does not lag behind non-federal pay. Again, while we may have to phase in the number of localities getting adjustments and/or the amount of the adjustments in a given year, all areas where federal pay is behind private sector pay should be eligible for locality adjustments from the outset. In addition to this being sound policy I believe it will be politically necessary both as far as winning support for locality pay from federal employees as well as from Members of Congress. Your legislation provides initially for locality adjustments in 19 out of 59 localities. Many of those other 40 localities would be eligible for an adjustment if the pay gap were figured into the adjustment calculation. Federal workers in those 40 areas need to know that. Maybe we couldn't pay them a full adjustment in the first year, but they would know they weren't being forgotten. They would know help was on the way.

Something I haven't mentioned up to now is that different locality adjustments would be paid within a locality to three categories of employees under S. 2274:

1) professional and administrative
2) technical and clerical
3) others, primarily law enforcement and firefighters.

While I recognize that using such categories may more accurately reflect private sector practices it raises some troubling questions. Will we face annual efforts to change from one category to another based on which is getting a larger increase in a particular locality that year? Will separating out professional, administrative and other categories deflate pay for technical and clerical employees? Will female dominated categories reflect the pay equity problems of the private sector? Will it be inordinately divisive for employees who work closely, but are in different categories, to get different locality adjustments? I'm not sure I know the answers to these questions, or if anyone does. One way to find the answers might be to require a study of the impact of separate pay lines over a period of 2 to 3 years. While I often have problems with studies, that is because I find they often delay decisive action. In this case, I would like to suggest that this legislation require a study be undertaken after the implementation of this new pay system to specifically assess the impact of separate pay lines. The General Accounting Office could be charged with doing the study, which would include input from employee representatives, and reporting its findings to the Senate Governmental Affairs Committee and the House Post Office and Civil Service Committee. The Committees could then take appropriate action based on whether the separate pay lines seem to be working or whether they have created so many problems that they should be scrapped.

Another aspect of S.2274 I'd like to comment on is the Federal Pay Council. S.2274 prescribes a 9 member Pay Council, chaired by the Director of OPM, and includes the Secretary of Labor, the Director of the Office of Management and Budget and 6 other members appointed by the President, 3 of which would be representatives of Federal employee unions or groups. This formula has the potential to be heavily weighted (6 to 3) against federal employees and their representatives. We believe any Pay Council that is designed to provide more than window-dressing must strike a balance between management and workers. In addition, calling for three representatives from Federal employee unions or groups without designating any criteria, such as the number of employees represented, could lead to a situation in which those with a great deal of representational responsibility would not have a voice in the deliberations of the Council. In any case, I don't believe three union or employee representatives is enough to adequately present the views of the large and diverse federal workforce.

With regard to the duties of the Pay Council, I'm afraid my view is colored by my conviction that the council as comprised in the bill would be totally under management's control. That being the case, I have no problem with the Council's ministerial role in making the necessary adjustments to the pay schedule based on BLS information. I would also support, given the make-up of the council, its advisory role on the issue of setting the boundaries for the pay areas, with BLS making the final determinations.

If I thought there were a truly equal role for employee representatives on the Pay Council, as envisioned by S.2274, I would push for it to have more decision-making authority, but weighted as it is in favor of management, I would rather see BLS in control of boundary setting than OPM. BLS has an excellent reputation, not only for its data collection and statistical analysis, but also for its even-handedness and insulation from political pressure. I believe with clear direction from Congress as to what ends are to be achieved, BLS could do the job well. Of course, my first choice would be to have a totally balanced Pay Council with decision-making authority, however, having served on many advisory committees that have done little more than provide the appearance of union approval for actions over which we had no control and, in fact, often disagreed with, I am becoming skeptical about whether a truly balanced Federal Pay Council is possible.

As to the studies that would be undertaken by the Pay Council, again my view is influenced by the slanted make-up of the council. However, I would have no problem with a study that would recommend whether employees stationed outside the continental United States or in Alaska should be moved from their current cost of living allowances to this new locality based adjustment plan. Conversely, as I indicated earlier, implementing a locality based pay plan now that does not take into account the pay gap and coming up with a plan to close the gap based on a 3 year study that would in practice be controlled by the Administration is unacceptable. I believe we have the opportunity to revamp the system now, let's put together a comprehensive long-term plan, even if it needs to be implemented over time.

With regard to the Council undertaking a two year study on the feasibility of linking pay adjustments to the employee's performance, I would object again based on the make-up of the Council. That is not to say that we are completely unwilling to discuss the concept of pay for performance in the context of current pay reform efforts. We believe our people are doing the job, but so far systems aimed at tying pay to performance have failed miserably. They have failed because they have been subject to favoritism by management and because not enough resources have been committed to provide for meaningful rewards for exceptional work. NTEU would consider the possibility of subjecting some portions of pay adjustments to a pay for performance system if all aspects of the design and implementation and impact were subject to collective bargaining. Collective bargaining would provide employees with the necessary protection against favoritism and insure that the system would be adequately funded.

On the issue of special salary rates, section 4 of S.2274 calls for broadening special rate authority. While I agree that special rates should be allowed based on any of a wide range of needs, I see no reason for the President or OPM to have to approve an agency's decision to pay a special rate. The agencies know best what is necessary to perform their specific missions and what resources are available to pay for their special needs. The ultimate decision on special rates should lie with the agencies. Under S.2274 the President could authorize OPM or an agency to exercise his special rate authority. There is an implication under section 4 of the bill that only agencies that are not subject to the provisions of Title V governing appointments in the competitive service can be authorized by the President to exercise independent special rate authority. I understand that is not the intent of the bill and would hope that language could be clarified to insure that the President could delegate special pay rate authority to any agency.

Other issues in S.2274 that I would like to address very briefly, include allowing 100 employees who serve in "critical positions" to receive pay up to Executive Level I of the Executive Schedule. I have serious concerns about the "critical position" concept. I believe it could cause a great deal of divisiveness, especially if a manager is making less than his or her "critical position" subordinate. I understand, however, that there is a great deal of pressure coming from the agencies and some legislators on this issue and I believe the limitations on the number of and pay for such positions are reasonable.

On the issue of agencies being allowed to hire above step one for all grades, we believe that the system has worked in the higher grades as a means of attracting highly skilled individuals and should be allowed throughout the GS schedule.

In closing, I again would like to thank you for this opportunity to comment on S.2274 and would like to emphasize that NTEU is serious about enacting comprehensive pay reform legislation this year. We are ready to educate, lobby, negotiate and do whatever else it takes to bring the efforts undertaken by you and Congressman Ackerman to fruition. We look forward to working with you on this critical endeavor.

FMA
Federal Managers Association

STATEMENT OF MICHAEL E. MINAHAN

NATIONAL PRESIDENT

OF THE

FEDERAL MANAGERS ASSOCIATION

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS

UNITED STATES SENATE

ON THE FEDERAL PAY COMPARABILITY
REFORM ACT OF 1990

MARCH 22, 1990

1000 16th Street NW Suite 701 Washington DC 20036 (202) 778-1500

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to provide the views of the Federal Managers Association on S. 2274, the Federal Pay Comparability Reform Act of 1990. The Federal Managers Association considers pay reform vital to improving the health of our nation's public service.

Last year FMA established a task force of our members to study the issue and prepare recommendations. With me today is Ms. Catherine Leyser, who chairs FMA's Pay Reform Task Force, and our Legislative Counsel, Mr. Bruce Moyer.

As you know, the Federal Managers Association is a professional organization of nearly 20,000 managers and supervisors in agencies and departments throughout the Federal Government. Pay reform is a matter of deep interest and concern to our members. They are concerned not only because they personally suffer the effects of the 28% pay gap, but also because of the severe impact the gap has upon their ability to effectively manage the performance of the Government's work.

One of FMA's primary goals is increasing the efficiency and effectiveness of the Federal workforce. An equitable, well structured pay system is essential to the Government's capacity to attract and keep employees who can provide the high quality of service the American people deserve and expect. The fact that the General Schedule no longer provides management with that tool is well documented and undisputed, and I will not dwell on that this morning. Rather, I would like to comment on your legislation, Mr.

Chairman, and state that we welcome and support it because we believe it will address many existing problems.

Last January, our Task Force recommended features of pay reform legislation. They are comparability, change of station differential, supervisory/managerial pay differential, and pay-for-performance. I would like to discuss those recommendations with you today, in relation to S. 2274.

Pay Comparability

The principle of equal pay for equal work must be expanded to cover the wide variance in the cost of labor and living throughout this large and diverse country. The fact that most Federal job recruiting is done in competition with local employers needs to be recognized; adjustments must be made based on locality, as S. 2274 provides.

Until now, Federal job classification and pay-for-performance systems frequently have been misused to compensate for low base salary rates in certain areas. Locality pay differentials ought to help prevent future abuse of the classification and merit pay systems.

We concur with the legislation's approach in the use of the Employment Cost Index as a national pay comparability yardstick, as supplemented by the use of local "pay relative" measurements.

Movement to a locality-based pay system for all occupations may not be without its problems. For example, difficulties in some areas of the country may be expected, where very few "like" non-Federal occupational groups exist for comparison with their Federal counterparts, e.g., scientists in the desert, engineers in rural Indiana.

This problem might be overcome through a national pay scale for the occupation, with locality-based adjustments for differences in the local market.

We also support your proposal to include state and local governments in the groups with which Federal pay is compared. Many Federal departments and agencies are losing employees to similar positions in State and local government, because of the higher salary structures offered there.

We agree with the legislation's approach toward considering a locality-based pay adjustment as part of the employee's basic pay for purposes of retirement, life insurance, severance pay, and lump-sum leave payments. We believe this is an important component in a viable pay reform package.

We should note that improving the competitiveness of the Federal Government in the labor market ought to rely upon improvements in Federal pay and benefits. The Federal Government, once an innovator in developing benefits packages, has fallen behind large private sector employers in providing employee benefits.

One of the great myths about today's Federal workforce is that Federal employees enjoy a level of benefits not enjoyed by the private sector. The reality is that Federal benefits lag behind private sector benefits. According to the Advisory Committee on Federal Pay, during 1981 to 1989 the value of Federal pay and benefits, as measured by the Wages and Benefits Index (by the Bureau of Labor Statistics), declined to a greater extent than the measurement of Federal pay alone under the Wages and Salaries Only Index.

A recent Congressional Research Service study found that Federal payments for health insurance for the average Federal employee are approximately $1,100 per year less than employer payments for health insurance of a typical private sector counterpart.

Federal benefits reform is more than a matter of simply more funding. It is also a matter of innovation and creative response to today's labor market. Prospective Federal employees are gauging the attractiveness of the Federal Government as a potential employer by what the Government has to offer in health insurance, day care, retirement, and other benefits. A smaller pool of educated job applicants in the 1990's will require the Government to be more competitive in the employee benefits package it offers. Thus, pay reform and FEHBP reform are not exclusive issues. They are part of the larger picture of increasing the Government's capacity to compete in an increasingly tight labor market in the decade ahead.

"Change of Station" Differential

FMA also believes that meaningful pay reform ought to include assistance for those who are transferred to Federal positions in high cost areas of the country. A "change of station" differential would accommodate the costs of moving and the high price of housing in those areas.

For those who are promoted or transferred from low or moderate cost areas of the country to high cost areas, a base salary adjustment cannot offset the appreciably large housing costs they face. This is particularly true in areas like San Francisco, Los Angeles, New York, and Washington, D.C. We ask, Mr. Chairman, that you consider incorporating this feature into your legislation.

The Need for a Supervisory/Managerial Pay Differential

Supervisors and managers in the Federal Government are responsible for managing billions of dollars in resources, programs, and services. Yet they frequently do not receive the support, recognition, and compensation commensurate with that level of responsibility. Federal pay reform ought to correct this deficiency.

The Federal Government is experiencing increasing difficulty in attracting and retaining top quality supervisors and managers. This problem will increase in the coming years as a greater number of managers retire.

The recruitment/retention problems in the supervisory and managerial ranks are caused by inadequate pay levels. In some areas, supervisors receive pay equal to or less than that received by the people reporting to them. For example, some activities have GS-12 supervisors who manage GS-12 staff. The overlap in the high-step levels of the General Schedule with the lower steps of succeeding grades causes some employees to earn more than their supervisors.

Mr. Chairman, we do not intend to portray financial reward as the major reason for pursuing a career in Federal management. We believe, however, that the Government must begin to provide more incentives to attract and retain highly qualified and committed supervisors and managers.

The added responsibilities that set apart the jobs of supervisors and managers are many, as are the risks from increased personal liability and stress. Supervisors and managers are often expected to take work home, and/or put in extra hours without compensation. Although this may not be an officially declared policy, these requirements are often part of the corporate culture in many agencies.

Some supervisors and managers also have to forfeit annual leave at the end of the year, because they are unable to take the time off to reduce their carryover balance to the maximum 240 hours.

In response to the above, FMA has proposed the following incentives for supervisors and managers:

* A guaranteed 10 percent salary differential for supervisors and managers (in comparison to non-supervisory staff);

* Authority by supervisors and managers to carry-over to a subsequent year up to 350 hours of annual leave;

* An additional 10-15 percent differential for service years as a supervisors or manager in connection with creditability of service for retirement purposes.

Additional incentives and benefits are possible. We look forward to continuing to work with you, Mr. Chairman, and your staff in this regard.

Pay-for-Performance

We are pleased that this legislation proposes to study the linkage of all or part of pay adjustments to employee performance. While we are not opposed to pay-for-performance principles, we believe they have not been successfully implemented in the

Performance Management Review System for GM employees. We caution against expanding a system that is not working without further review and study.

In closing, the Federal Managers Association fully supports the aims and purposes of S. 2274. With the improvements we have outlined here today, we believe enactment of this legislation will better enable this nation's civil service to meet the challenges of this decade and beyond.

Mr. Chairman, this concludes my prepared statement. I will be happy to respond to questions.

PMA
PROFESSIONAL MANAGERS ASSOCIATION

Statement of
Professional Managers Association

Before the
U.S. Senate
Committee on Governmental Affairs

March 22, 1990

on
Federal Pay Comparability Reform Act of 1990
S. 2274

Presented by
Helene A. Benson
President
Professional Managers Association

Mr. Chairman and members of the Committee on Governmental Affairs, the Professional Managers Association (PMA) appreciates the opportunity to appear here today and provide our views on the proposed Federal Pay Comparability Reform Act of 1990, S. 2274.

Federal pay is a subject of keen interest to our members, Federal mid-level (PMRS) managers -- as managers, Federal employees, and citizens -- who are concerned about the efficiency and effectiveness of the Federal government.

As you know, according to the General Accounting Office, Federal employees since 1981 have been denied almost $74 billion in the increases necessary for Federal pay to be comparable with private-sector pay. The President's pay agent reported last August an average pay gap of 28.62 percent. In some occupations and areas the gap is much wider, as we all know. The result, not surprisingly, is low morale in the Federal workforce and difficulty in recruiting and retaining qualified employees. Now that the Federal Employees Retirement System does not lock new employees into staying with the Federal government, as the Civil Service Retirement System does, this already serious problem will worsen unless remuneration of Federal employees is improved. The Federal government must recognize that its pay disparities with the nonfederal sector can no longer be tolerated.

We want to thank you for addressing the problem of low Federal pay by introducing S. 2274. We are hopeful that through your leadership there is a chance for meaningful pay reform this year.

PMA agrees with the principle of pay comparability, even if that principle is redefined in some ways, such as to include state and local government employees. Whether comparability is achieved through paying national average rates, as the present system was designed to do, or locality-based pay adjustments -- and there are problems with either approach --, we think that pay comparability is fair to employees and fair to the taxpayers. We are pleased to see that S. 2274 has not abandoned the principle of pay comparability.

We also believe in the principle of equal pay for substantially equal work and the principle of internal equity among Federal jobs. We would like a new government-wide pay system to incorporate and balance these three principles.

We have been concerned by the efforts in the last few years to solve individual pay problems in isolation. Last year Congress raised the pay of Federal executives. In 1989 approximately 11 percent of the Federal workforce was covered by special pay rates. Various legislative proposals have been made to correct the pay problems of specific agencies and groups. Undue emphasis on improving the pay of entry-level positions and expanded use of special pay rates, at the expense of the rest of the workforce, simply highlights the breakdown of the Federal pay system.

PMA believes it is important to reform pay for the entire Federal white collar workforce, keeping in mind the three principles of comparability, equal pay, and internal equity. We think it would be unwise and unfair to confine pay reform efforts to entry-level positions, hard-to-recruit positions through special pay rates, a very few high-cost areas of the country, a few occupations, and the SES. Such a patchwork approach would violate the principles we think should guide the setting of Federal pay and such fragmentation of the government's pay system will only delay the proper solving of the pay problem.

S. 2274 replaces the present system with a two-part process designed to close the pay gap. Under S. 2274 the first part of the process involves (1) giving all white-collar Federal employees nationwide a raise annually based on the increase in the Employment Cost Index, calculated by the Bureau of Labor Statistics (BLS) and (2) providing for annual locality-based adjustments, based on "pay relatives" calculated by BLS. The locality-based adjustments will not close the gap since they do not measure government salaries against nonfederal salaries in the locality. The second part of the process involves additional legislation to close the gap.

While PMA would prefer that the locality-based adjustments be related to nonfederal salaries, we recognize that it may take time to implement such a system and consider the locality-based adjustment approach in S. 2274 a satisfactory interim step in order to effectuate some pay relief by October 1991.

We like the idea of boosting Federal pay nationwide annually according to increases in a national pay index, whether the national index to be used is the Employment Cost Index (ECI) or another appropriate index. We have noted that the General Accounting Office stated that the results of the ECI and the Professional, Administrative, Technical and Clerical (PATC) Pay Survey closely parallel each other. The GAO noted that private-sector salaries measured by the PATC survey increased by 61.69 percent from 1977 to 1986 compared with a 61.61 percent increase in private-sector salaries measured by the ECI.

The pay comparability principle, originally adopted in 1962, was never really implemented because there is not an automatic mechanism for the increase. While S. 2274 is an improvement in that pay increases can be prevented only if the President imposed national wage and price controls, we prefer an absolutely automatic mechanism for the salary increases -- along the lines of Social Security increases -- that can be overturned only by law.

We agree wholeheartedly with section 5302(b), which provides that locality based pay adjustments shall be part of basic pay for purposes of retirement and other benefits.

In order that employees stationed in areas with high locality pay adjustments are not discouraged from transferring towards the end of their careers to areas with either no or a low locality pay adjustment, we suggest that employees who have spent a substantial portion of their careers in an area with a high locality adjustment -- say 20 or 25 years -- and may naturally wish to retire there -- have the amount of that locality adjustment included in their pay for purposes of calculating their pension, regardless of where they are stationed the last few years of their careers before retirement. This will also guard against punitive transfers of employees towards the end of their careers from an area with a high locality pay adjustment to an area with no or a low locality pay adjustment. You may wish to provide a similar safeguard against transferring employees at the end of their careers from low to high locality pay areas solely to increase their pensions.

Section 5306(a)(1) provides for a Federal Pay Council to be composed of nine members including "(D) six members who are not Federal employees, to be appointed by the President. . ., including three representatives from Federal employee unions or groups." We suggest that the phrase "who are not Federal employees" be deleted so that Federal employees are not precluded from serving in this category.

Section 10(b) of S. 2274 requires the Federal Pay Council to study and report to Congress within 2 years of enactment of this law on the feasibility of linking the annual adjustments and locality-based increases to the employee's performance on the job.

PMA would like to take this opportunity to share with you the views of PMRS managers, i.e., GM 13-15 managers, on the Performance Management and Recognition System (PMRS), the "pay for performance" system under which PMRS managers are appraised and paid.

We would like to make the results of our PMRS survey a matter of record with the Committee as well as a compilation we have made of specific comments submitted in our survey and the press release announcing the results of the survey. This material is attached to this testimony.

As you will note, almost three-fourths of those surveyed believe that ratings are influenced by favoritism. Despite the fact that managers are generally financially better off under PMRS than under the General Schedule (GS), only 3 percent of those who responded believed that PMRS should be retained.

PMA cautions against imposing any new "pay for performance" system on the entire Federal workforce, given the low regard in which PMRS and its "merit pay" predecessor have been held, until a corrected PMRS system has been tried and found to be successful.

In any case, we believe the entire amount of the annual comparability adjustments are due all who are performing satisfactorily. Those who are not performing satisfactorily for any length of time should not be on the Federal payroll.

Finally, PMA has two recommendations which we urge the Committee to include in S. 2274.

First, PMA recommends that any pay system adopted provide a pay differential for PMRS managers. Those who take on the responsibility of management should receive higher pay than those of the same grade without such responsibilities.

Second, we also suggest that PMRS managers be allowed to carry over from year to year more than the 240 hours of annual leave presently authorized. SES members may carry over from year to year an unlimited amount of annual leave. We suggest that PMRS managers be permitted to carry over 480 hours, rather than the presently authorized 240 hours. Adding 30 days to the present ceiling will help diminish the need to go through the administrative complexity of restoring leave balances when approved leave cannot be taken due to the press of business as well as alleviate the all too common injustice of such managers forfeiting annual leave that cannot be carried over.

PMA will be happy to work with you and your staff on pay reform in order that the law enacted will achieve its objectives. Thank you for considering our views.

PMA
news release

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PMA's PMRS Survey Results

Managers covered by it are very unhappy with the Performance Management and Recognition System (PMRS), the performance appraisal system covering grades 13, 14, and 15 supervisors and managerial officials.

The Professional Managers Association (PMA), an association of PMRS managers in the Federal Government, conducted a survey to obtain the opinions of PMRS managers on the PMRS system. "PMA's survey confirms that the overall perception of PMRS is one of inequity, a paperwork burden that is not worth the result, and a morale defeator not booster," stated Helene Benson, President of PMA.

A disturbing 86 percent of those surveyed reported that forced distribution of ratings is common. More than three-fourths of those surveyed believe that PMRS is characterized by changed ratings, dictated ratings, or pressure to rate in a prescribed manner by higher level management. Almost three-fourths believe that ratings are influenced by favoritism. Sixty-three percent believe PMRS has had no effect on their performance and a significant 22 percent report a negative effect. On the other hand, 86 percent of those responding to the survey support the premise that pay should be linked to performance.

The merit pay provisions of the U.S. Civil Service Reform Act of 1978 (CSRA) were hailed as a means for making federal managers and their organizations more responsive, efficient, and effective. Instead, merit pay proved to be so counterproductive that it was described as a disincentive millstone on the back of the Federal Government. In 1984 Congress sought to remedy the problems of the merit pay provisions of the CSRA by creating PMRS. PMRS has also been a dismal failure.

Despite the fact that the managers are generally financially better off under PMRS than under the General Schedule (GS), only 3 percent of those surveyed believe that PMRS should be retained. "Under PMRS the majority of managers, who meet or exceed performance standards, are made to feel like losers," claims PMA President Benson. "Instead of measuring a manager's performance against standards, the managers are pitted against each other under PMRS -- an unhealthy situation."

PMA's survey elicited more than 2,300 responses (2,047 responses were tabulated) from Federal managers located in 43 states and throughout more than 37 Federal agencies. PMA conducted the survey on PMRS because of the large number of complaints PMA has received about PMRS since its implementation and because, under Public Law 98-615, PMRS must be reenacted or cease after September 30, 1989. PMA's survey further confirms that a substantially revised appraisal system is vitally necessary.

The following are the survey results.

- Do you agree .... that pay should be linked to performance?

  86% of those answering the questionnaire agreed that pay should be linked to performance.

- Do you have a good understanding of what is expected of you as a result of PMRS?

  55% of those answering the questionnaire felt that PMRS fosters a good understanding of what is expected of employees.

  30% felt that PMRS does not foster a good understanding of what is expected of employees.

- What kind of impact has PMRS had on your performance?

  Only 13% of those responding felt that PMRS has had a positive effect on their performance.

  63% felt that PMRS has had no effect.

  22% felt that PMRS has had negative effect on their performance.

- Does PMRS offer a useful approach for tracking and communicating organizational and individual performance?

  Only 21% of employees responding felt that PMRS offered a useful approach to tracking and communicating organizational and individual performance.

  61% felt that PMRS did not offer a useful approach.

  16% were uncertain.

- Should it be possible to assign any rating to a PMRS employee without requiring a cash award?

  57% of those answering the questionnaire felt that performance cash awards should not be mandatory (e.g., as required by statute for PMRS employees with Outstanding performance ratings).

  25% felt that such awards should be required.

  15% were uncertain.

- Quotas and Forced Distributions.

  86% of those responding to the questionnaire believe that quotas and forced distributions are common under PMRS.

- Ratings under PMRS influenced by favoritism.

  72% of employees responding believe that ratings are influenced by favoritism.

  13% believe favoritism not to be a factor in determining ratings.

  14% were unsure.

- Degree of participation between managers and their subordinates in writing performance standards.

  62% of employees responding felt that there is not a high degree of participation by subordinates with their supervisors in writing performance standards.

  28% felt that the degree of participation is adequate.

  8% were unsure.

- Insufficient money for PMRS increases/awards to be meaningful.

  79% of those answering the questionnaire felt that the amount of money for PMRS awards is insufficient to be meaningful.

- PMRS recognition of high performers.

  57% of those answering the questionnaire felt that PMRS does not promote recognition of high performers.

  25% felt that PMRS promotes such recognition.

  17% were unsure.

- PMRS characterized by changed ratings, dictated ratings, or pressure to rate in a prescribed manner by higher level management.

  77% believe that PMRS is characterized by changed ratings, dictated ratings, or pressure to rate in a prescribed manner by higher level management.

  12% were unsure.

Only 10% felt that such characterization is untrue.

- PMRS ratings influenced by factors other than performance.

  An overwhelming 86% of those answering the questionnaire felt that PMRS ratings are influenced by factors other than performance.

- Satisfaction of employees with amount of input they have in writing their performance standards.

  45% of those responding believe employees to be dissatisfied with the amount of input they have in writing their performance standards.

  33% believe employees are satisfied.

  21% were unsure.

- PMRS hurt morale of PMRS employees.

  66% believe PMRS has hurt morale of PMRS employees.

  20% were unsure.

  13% believe PMRS has not hurt morale.

- PMRS promotes identification and correction of performance problems.

  69% of those responding believe that PMRS does not promote identification and correction of performance problems.

  Only 13% perceive that PMRS promotes such identification and correction.

  17% were unsure.

- Schedule C appointees receive a disproportionate share of higher ratings and award money.

  56% of employees answering the questionnaire were unsure as to whether Schedule C appointees receive a disproportionate share of high ratings and award money.

  37% felt that Schedule C employees receive a disproportionate share.

Only 3% felt that Schedule C employees did not receive disproportionate share.

- Higher level managers receive a disproportionate share of higher ratings and award money.

  64% of those responding felt that higher level managers receive a disproportionate share of higher ratings and award money.

  25% were unsure.

  Only 9% felt that higher level managers do not receive a disproportionate share.

- Are there advantages to being a mid-level manager covered by PMRS?

  69% of those completing the questionnaire felt that there are no advantages to being covered by PMRS.

  15% were unsure

  13% felt that there are advantages to being in PMRS.

- Do you believe you are financially better off than if you had been under the General Schedule?

  40% of those responding believe themselves to be worse off than if they had been under the General Schedule.

  29% believe themselves better off under PMRS.

  29% felt that PMRS has had no effect either better or worse.

- Should PMRS be extended to all employees?

  A substantial majority - 73% - of those responding to the survey felt that PMRS should not be extended to all employees.

  15% were uncertain.

  Only 10% felt that PMRS should be extended to all employees.

- How has PMRS affected performance of your subordinates in GS?

  66% of supervisors responding feel that PMRS has had no effect on performance of their GS subordinates.

  12% felt that PMRS has had a harmful effect on performance of their GS subordinates.

5% felt that PMRS has served to improve performance of their GS subordinates.

- How has PMRS affected the morale of your subordinates in GS?

51% of supervisors responding feel that PMRS has had no effect on morale of GS subordinates.

29% felt that PMRS has had a harmful effect on morale of GS subordinates.

Only 1% felt that morale of GS subordinates had been improved by PMRS.

- To what degree have PMRS objectives of recognizing, rewarding, and motivating quality performance been achieved?

60% of those responding feel that the objectives of recognition, reward, and motivation toward quality performance has been achieved only at a low level.

28% felt that the objectives have not been met at all.

Only 7% felt that the objectives have been met to a high degree.

- To the question .. If you have a choice, which would you recommend?

47% felt that there should be a revised performance appraisal system.

41% felt that GS should be restored either with modifications or as it was.

    - With modifications, 23%
    - As it was, 18%

Only 3% felt that PMRS should be retained.

Are you better off to deliver service to the public as a result of PMRS?

80% felt they are not better able to deliver service to the public as a result of PMRS.

11% are uncertain.

Only 3% felt that PMRS made them better able to deliver service to the public.

COMMENTS TAKEN FROM RESPONSES TO PMA'S QUESTIONNAIRE ON PMRS

"I feel PMRS causes first line managers to keep new ideas to themselves in order to outdo their associates rather than share ideas to improve our agency."

"Supervisors don't have control over their budget, hiring, firing, etc. There is too much competition among managers instead of cooperation."

"Typically a good concept such as pay for performance gets distorted in implementation."

"The present SES, GM, GS divisions have created a caste system with constituencies that compete against each other for a share of the "pie".

"Although I have received almost $12,000 in PMRS awards during the last 7 years, I would prefer a system perceived as more equitable."

"The existing system discourages high performers because of quotas. If you get high rating one year, superviors tend to give to someone else the next year or two, even if your performance remains high."

"PMRS has lowered morale because it does not necessarily recognize quality performance. The quota system has made it such that some divisions have several quality employees yet only one can be recognized. If no one is quality, someone is still recognized."

"PMRS has been a prime source for the deterioration of quality management within government service. High performers are frustrated and disillusioned with a system dictated by dollars available not job performance."

"PMRS has created mountains of paperwork with little apparent change in rewarding good performance and punishing bad. There is little reward for high level performers, ratings are often influenced by budgetary contraints, and less fair than under GS system."

"Currently under PMRS a satisfactory rating is perceived as negative and resented."

"PMRS has not affected my performance because of my own desire to strive for a job well done and because I take pride in my work. I have received several outstanding ratings while under PMRS which have equated to a lousy 2.9%, why bother?"

"Since awards are by quota it makes no difference how hard I work. When my turn comes, it comes."

"If quality is to be first in customer relations and the use of numbers eliminated, then PMRS must be dismantled."

"Under PMRS teamwork and esprit de corps have been destroyed."

PMRS has been a monumental exercise in nothingness since it was implemented. With all the paper it consumes, a good size forest no longer exists."

"PMRS stresses goals that cause managers to look out only for themselves. It does not foster a team approach. It also results in awards for reasons other than merit which destroys the system."

"We encourage our best and brightest employees to aspire to become managers. When they do, we can't adequately reward them. There are no perks and their pay may actually suffer."

"PMRS is neither merit nor pay."

"Every year from the beginning of PMRS I received an outstanding or distinguished rating, except for one. Based on this record you would think I would be supportive of PMRS. This is not the case, because the truth is this accomplishment was achieved at the expense of the organization and the public we serve. However, as long as PMRS is retained, I will continue to respond to those incentives which benefit me personally."

"PMRS is a paperwork nightmare with little or no measurable pay off. It is not cost effective."

"PMRS should be uniformly administered so that people don't suffer windfalls or wipeouts solely based on the size of their pay pools."

"I personally would prefer not to receive any award but receive a rating that truly reflects what I deserve since it influences my future, i.e. promotion potential, rif points, etc."

"Please review In Search of Excellence. The PMRS system is exactly what you should not do to promote quality, morale, initiative, etc."

"Many of my people make more than I do. Is this how a manager should be rewarded? Even if I perform at the highest levels, I'll eventually fall behind people who work for me who get full step increases are are the same grade I am."

"PMRS is a giant step backwards for government managers. Only a few have benefited from it. Many deserving managers have received nothing through PMRS. It should be discontinued."

"Pay for performance has turned out to be a cruel joke played on people who often have the most difficult jobs in government. Many times GS employees fare better with regard to $ than their GM counterparts."

"In my opinion only about 2 or 3% of the PMRS workforce is truly outstanding. To the extent that there have been quotas, they have probably been too generous."

"PMRS is too time consuming to justify the minimal amounts involved. It has created a pecking order that has hurt morale and fostered personal and professional jealousies."

"I have been a PMRS "winner" for six consecutive years. I find application of the process to be unfair, inconsistent, illogical and fraught with favoritism."

"As a GM-14, step 10 I have received 5 distinguished performance awards. PMRS still stinks! Even though it has been good for me personally, it must be changed for the good of the organization."

"PMRS is a poor system that is further hindered by its designed objective to reduce total pay compensation and not necessarily to encourage improved job performance."

"There seems to be an imbalance when executives are receiving $10,000 awards yet there is not enough money to go around for meaningful awards for supervisors and managers."

"PMRS is a farce. I am not optimistic that any fair system can be established in the Federal service. As arbitrary as the old GS system was, it was not based on the capricious and patently unfair day-to-day considerations of the present system."

"The dollars provided even to outstanding achievers don't warrant the overall bad effects of the system. Technicians get more money for their efforts. Let's recognize more."

"Crudely, but concisely, PMRS sucks! Accountability for performance and assessment of performance have decreased while morale and motivation have declined to the detriment of quality public service."

"I will continue to do the best job I can but PMRS has certainly soured my attitude. I received a superior rating last year and received a $1375 bonus. This year I received a superior rating which was changed because our State was over its quota."

"Many employees would settle for the recognition of their efforts and the additional consideration during RIF procedures of a superior rating and would forego the $. Make agencies accountable for their performance management decisions so they cannot prostitute the system."

"Where ratings are changed, especially when we lower the proposed rating, we need to be accountable to the employee for this action. This area is one of the worst morale killers I've seen."

"Several of my subordinates have stated they have no interest in management because of PMRS. We must change the system so it is no longer a deterrent for good people to enter management careers."

"The past Administration treated Federal employees with thinly disguised contempt, a lack of respect, and engaged in a campaign to cheapen Federal service. If you think a buffed up PMRS is going to address 8 consecutive years of neglect, you are mistaken."

"Too many managers are receiving ratings above satisfactory which dilutes the amount of an award to meaningless levels. I would rather see large cash awards to fewer managers who truly performed well and specific, measurable expectations. Others could receive non-cash recognition."

"PMRS is not a motivational tool. It is a woefully inadequate response to an unmet need; realistic and fair performance appraisal."

f.e.w.
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STATEMENT OF

DOROTHY I. SPINKS, PRESIDENT

FEDERALLY EMPLOYED WOMEN

BEFORE

THE COMMITTEE ON GOVERNMENTAL AFFAIRS

UNITED STATES SENATE

REGARDING

THE FEDERAL PAY COMPARABILITY REFORM ACT OF 1990

MARCH 22, 1990

1968 – 1988
20 Years
of
Excellence

Mr. Chairman and distinguished members of this Committee, I am Dorothy I. Spinks, President, Federally Employed Women (FEW). FEW is an international membership organization representing some 900,000 women employed by the Federal government throughout the world. FEW is a private, non-profit, non-partisan organization that was founded in 1968 to advocate equal opportunity and foster full potential for working women in the federal sector.

FEW is pleased to be afforded this opportunity to provide testimony on the Federal Pay Comparability Reform Act of 1990. As we are all well aware, the General Schedule Pay System covers more than one million white-collar employees, nearly half of whom are women. In order to assure that the Federal government is able to recruit and retain public servants with good skills and experience, the Administration and the Congress must develop comprehensive and economically feasible policy to address this issue. Your legislation, Mr. Chairman, obviously takes this task seriously.

Problems with the General Schedule Pay and Classification System

The Federal Salary Reform Act of 1962 (later refined by the Federal Salary Reform Act of 1970), established that federal salary rates for white-collar employees should be comparable with average rates paid by private sector employers for similar jobs.

The President's Pay Agent stated that the current wage gap between comparable federal sector and private sector employees has reached an all-time high of 28 percent. Effective action must be taken immediately.

Over the years, several factors have contributed to this wage gap. First and foremost, according to the General Accounting Office (GAO) in testimony before the House Subcommittee on Compensation and Employee Benefits on March 14, 1990, "the process established to maintain salary comparability with the private sector has not been followed for many years". Federal cost-of-living pay raises have consistently been established at lesser amounts than indicated by the Pay Agent to maintain comparability. The most recent federal salary increase illustrates this point. While the average private sector salary increased about 6.4 percent, federal employees were only granted a 3.6 percent increase. Thus, again the gap was widened.

Another factor contributing to the ever-increasing wage gap between the federal sector and private sector is the fact that there is no uniform nonfederal rate across the country. The GAO's testimony stated that "substantial variances exist", and make the use of a national average extremely difficult.

In addition, the comparability principle fails to take into consideration the tremendous variance in the cost of living in different parts of the country. The GAO has also stated that "among the 59 metropolitan areas with at least 5,000 federal white-collar employees, living costs vary by more than 65 percent". Given the implications of this data, it is inevitable that locality adjustments are in order.

The Federal Pay Comparability Reform Act of 1990

FEW has made an effort to review several federal pay reform initiatives which have surfaced in the recent years. S. 2274 has attempted to address concerns relating to the issue of comparability between the federal and private sector. There are several factors which must be taken into consideration, however, if we are to significantly decrease the existing wage gap.

Annual Pay Adjustments

S. 2274 establishes a mechanism to ensure that the annual pay adjustments afforded to federal employees at least keep pace with the average increases of nonfederal employees. This policy would be carried out by directing the Bureau of Labor Statistics (BLS) to determine the percentage increase according to the Employment Cost Increase (ECI), a quarterly measure of private industry wages and salaries for white-collar workers.

The implementation of comparable cost-of-living increases between federal and nonfederal employees is a critical component of any serious reform of the entire federal pay and classification system. This action in and of itself assures that the wage gap is not widened further.

Critical-Position Pay Authority

S. 2274 provides the Director of the Office of Management and Budget (OMB) with the authority to designate up to 100 "critical-positions" government-wide. This authority would enable OMB to fix the rate of pay at an appropriate level to recruit and retain exceptionally qualified employees.

FEW recognizes that this type of policy may be necessary to enable the Federal government to compete with private industry for top-notch individuals. However, federal employees at all levels must be assured that adequate oversight or safeguards are built into the regulations which govern discretion in this area.

Locality Based Adjustments

S. 2274 establishes a locality based mechanism for adjusting pay which uses a formula based on "pay relatives". Pay relatives essentially compare the average nonfederal salary for specific occupational groupings in a designated locality to the national nonfederal salary for those same groups. Percentage adjustments would then be calculated and afforded by job category to employees in the respective locality. Three separate categories would be utilized for this purpose: (1) clerical and technical positions; (2) professional and administrative positions; and (3) other positions (including law enforcement officers).

We would like to recommend that the following aspects be considered in your review of this issue. First and foremost, the pay relatives system compares nonfederal employees to nonfederal employees. This proposal would not directly affect the existing

28 percent wage gap we are attempting to eliminate. In our opinion, any serious attempt at reform must seek as its first priority to reduce the present wage gap that exists between nonfederal and federal employees.

Secondly, we are concerned about any mechanism which segments pay adjustments by job category, ultimately resulting in federal employees receiving different adjustments within a locality. Obviously, occupational categorization will be necessary in order to compare federal and nonfederal salaries. We do not believe, however, that this categorization should result in the categorization of pay adjustments. FEW recommends that once comparative data is established within a defined locality based on job categorization, these statistics then be utilized to adopt an average percentage adjustment provided to all federal employees in that locality.

Federal Pay Council

S. 2274 would develop a Federal Pay Council consisting of nine members including the Director, Office of Personnel Management (OPM) as Chair; the Director, Office of Management and Budget; the Secretary of Labor; three public members; and three employee representatives. FEW fully supports the establishment of a working group to develop the parameters of any pay reform process.

It is crucial that the interests of all employees are taken into account in order to accomplish meaningful pay reform. Thus, it is imperative that the Federal Pay Council is fully representative of the entire federal workforce. Female federal employees, expected to make up a majority of the federal workforce by the year 2000, must be assured that at least one member of the Council represents their diverse interests. As FEW is the sole organization devoted to the interests of federally employed women, we would be honored to serve on the Council or work with the Council to this end.

Linkage of Pay Adjustments to Performance

S. 2274 would authorize the Federal Pay Council to study the feasibility of linking pay adjustments to job performance within two years.

We have several concerns regarding this concept. First and foremost, there is no evidence which suggests that the absence of this linkage between annual or locality adjustments and performance is in any way responsible for the wage gap currently existing between federal and nonfederal employees.

Preliminary data obtained in a GAO study of private sector pay practices, seems to suggest that job performance is a primary criteria for annual cost-of-living increases in the private sector. It is difficult to make inferences from this data, however, unless personnel policies in these companies are themselves comparable to the federal personnel system.

Some 40,000 federal white-collar and Postal Service employees in Alaska, Guam, Hawaii, Puerto Rico, and the Virgin Islands are currently receiving allowances to compensate for the high cost of living in these areas. These allowances as well as annual cost-of-living increases for all federal employees are not linked to performance. We ask that these systems be used as models when establishing locality adjustments within the continental United States. FEW views any linkage of locality or annual cost-of-living adjustments with performance as unnecessary and not in consonance with the present performance evaluation system.

Pay Equity

There is much evidence indicating a distinct wage gap between women and men and between various groups according to race in the Federal government. According to the latest BLS estimate, women can, on the average, expect to earn approximately seventy cents for every dollar earned by men. This figure is considerably lower for minority women. OPM's latest statistics representing the total civilian workforce in worldwide Executive Branch agencies released in September 1989 illustrate this gap.

White Collar Occupations

	Men	Women
White	$37,309	$24,947
Black	28,232	22,320
Hispanic	30,212	22,051
Asian	35,408	25,739
Am. Indian	27,628	20,695

Much research on this disparity has concluded that a portion of the wage gap is attributed to sex-based wage discrimination. A 1981 study by the National Academy of Sciences found that the wage gap between men and women resulted from the fact that women's jobs traditionally pay less, regardless of the work entailed. Furthermore, the study indicated that the more a job is dominated by women, the less it pays. A 1987 Census Bureau report reiterated these findings.

FEW has consistently advocated for immediate attention to the identification and elimination of sex- and race-based wage discrimination in the federal sector. However, there are several important reasons why we advise against fully addressing pay equity in this stage of federal pay reform.

First, the development of a mechanism to implement pay adjustments on a locality basis is an extremely complex pursuit, and one that deserves the undivided attention of the Administration and the Congress. The identification of sex- and race-based wage discrimination and the implementation of pay equity, which assures that work of comparable value (i.e. requiring the same skill level, effort, responsibility and working conditions) is equally compensated, is also complex and deserving of undivided attention as well.

The GAO has recently embarked on a study of the federal pay and classification system for sex- or race-based wage discrimination. We have been told that this study is expected to take at least 18-months to complete. We strongly suggest that this Committee maintain a close relationship with the GAO throughout the course of this study in order to review any preliminary data which may have relevance to developing meaningful pay reform. FEW further suggests, that any legislative efforts toward pay reform require the Federal Pay Council to study the GAO findings and develop a strategy to implement any appropriate pay equity adjustments as soon as possible.

FEW is willing to act as a resource or provide assistance to the Committee and to the Federal Pay Council in this area. We have represented the concerns of federally employed women regarding the issue of pay equity for many years, and possess a wealth of experience and knowledge in this area.

Conclusion

All of the available evidence points to the need for pay reform now. Mr. Chairman, we applaud your efforts and interests in this complex and difficult problem facing the Federal government. S. 2274 presents one possible approach toward assuring that the federal sector can recruit and retain qualified and experienced public servants.

If we take the challenge of federal pay reform seriously, we must be willing to construct comprehensive and constructive policy to reduce the wage gap between federal and nonfederal employees as soon as possible. Serious attention also demands a willingness to spend the monies necessary to implement this policy.

We all realize that this decade will be one of belt-tightening. Mr. Chairman and members of the Committee, I urge you to make tough and responsible decisions regarding this task. We must fully address the disparity between the salaries of federal and nonfederal employees. And we must do it now.

Thank you for providing FEW with the opportunity to testify on the Federal Employee Comparability Reform Act. We will be happy to work with the Committee in order to realize our goal of a viable and competitive federal workforce.

TESTIMONY BY SENATOR FRANK R. LAUTENBERG
SENATE GOVERNMENTAL AFFAIRS COMMITTEE
THE FEDERAL COMPARABILITY REFORM ACT OF 1990
MARCH 21, 1990

Mr. Chairman and Members of the Committee, I appreciate the opportunity to express my support for the Federal Pay Comparability Reform Act of 1990. I also want to thank the Chairman for the prompt scheduling of these hearings on this important issue of just compensation for our federal workforce.

I am pleased to be an original cosponsor of this legislation. Existing law governing federal pay has never achieved its legislative goal of comparability with private sector pay. On average, federal employees around the country are paid 25 percent less than private sector workers doing comparable work. In the state of New Jersey, the minimum pay gap is 30 percent. For such professions as skilled medical care, it is as high as 60 percent.

The bill seeks to bring the compensation of federal employees closer in line with that received by workers in the private sector and state and local government in a particular region. It also seeks to give federal agencies the tools necessary to recruit and retain the most talented people for government service. The bill would enable the federal government to be a more competitive employer in areas of the country where the pay gap is the greatest.

This legislation is essential. The government's failure to close the pay gap in New Jersey ultimately results in poorer service to the public. Let me cite a few examples.

In 1988, the Environmental Protection Agency reported that the average Regional Superfund Office experienced a turnover rate of 13.77 percent of its employees. In New Jersey, the turnover rate for Region II EPA employees was 50 percent higher in 1988. This manpower turnover significantly limited EPA's ability to manage the Superfund program and clean up our nation's toxic waste sites. The employees left for more advancement opportunities and more money in the private sector taking jobs dealing with hazardous waste. This has serious ramifications for the general public. It means that the Superfund site down the road isn't going to be cleaned up as soon as it should be. It means that the public is exposed to hazards for longer periods of time.

In one defense agency in Morris County, 216 employees resigned between January, 1987 to June, 1988. Sixty seven percent of those employees said that they left because of the low salary and went to private industry. The agency had several high level managerial and engineering vacancies. It also lost several SES executives due to higher salaries in the private sector. Potential candidates to fill these positions declined to move to New Jersey due to the high cost of living.

An agency in the Treasury Department in Essex County, New Jersey has reported that the attrition rates of accountants has risen from 34 percent in 1986 to approximately 70 percent in

1988. The average cost to provide the most basic training during the first year of employment is $13,561 per accountant. In addition, the public lost $20 million in tax assessments, according to one estimate, because the Treasury Department did not have enough accountants to conduct audits.

The same agency received 442 applications for 122 open accountant positions. Two hundred applications (or 45 percent) were not qualified to hold an accountant position and 19 applicants declined to be interviewed. Two hundred and ten applicants were interviewed. Sixty-four applicants were offered a position. Thirty-nine accepted the position. Within two months, 3 accountants had already resigned for jobs in the private sector.

The cost to interview the 210 accountants was $17,233. In addition, the total cost to advertise, recruit, and process the applications was $98,958. Thus, the average cost to recruit, process, and interview each accountant that accepted a position was $2,979. These numbers drive home the point that we need to put the money upfront. We need to put the money that was spent on recruiting and interviewing and training into better salaries for retention. To quote an old cliche, "an ounce of prevention is worth a pound of cure."

Without the reform that would be mandated by the Federal Comparability Reform Act, we will continue to be forced to remedy the federal pay problem with ad hoc solutions for each agency's individual crisis. That has not worked well.

A raise and relocation allowance was provided for FBI agents stationed in New York -- including many New Jersey residents. But, when we attempted to extend those same benefits to FBI agents in Newark, New Jersey, we were rebuffed by House members. And, of course, other federal law enforcement personnel continue to be denied comparable increases.

We succeeded in getting a pay demonstration program for the Federal Aviation Administration to staff certain facilities in high cost of living areas, but not others. This is not enough. Federal employees need a comprehensive solution.

Federal employees are one of our nation's greatest resources. The public relies on them to care for our veterans, to protect our health and safety, to protect our children from drugs, and to keep our environment clean. Federal employees should not be forced to suffer from a compensation system that is inadequate and unresponsive to the increasingly high cost of living in many regions throughout the country. The public should receive the greatest possible service from the federal government.

The Federal Pay Comparability Reform Act of 1990 provides an excellent opportunity to begin to solve the federal pay crisis. Federal employees deserve to be compensated for a job well done. The public deserves to get what it pays for.

Mr. Chairman and Committee Members, thank you for this opportunity to express my concerns regarding federal employees and my strong support of this legislation.

TESTIMONY OF THE HON. BARBARA MIKULSKI
BEFORE THE
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

FEDERAL PAY REFORM
MARCH 21, 1990

Mr. Chairman, I'm glad to have the opportunity to appear before the Committee this morning to give my views on federal pay reform. I would like to begin by commending you for your leadership in tackling this issue.

We must be prepared to pay a fair and reasonable wage if we are to maintain a federal workforce that ably performs the day to day functions of government. As citizens we tend to forget how much we rely on federal employees to administer programs that affect us on a daily basis. We must continue to remind the public not to lose sight of the importance of a competent and motivated workforce in meeting national needs. I want to take this opportunity to let the workforce know that their contributions are noted and appreciated.

Mr. Chairman, we all know the federal pay system is in dire need of repair. With an average 28% pay differential between private and public sector pay, it's not surprising the system is in shambles.

I'm here to underscore the concern that we can no longer afford further delay in reforming the system. We can't recruit employees in high cost areas and we can't attract individuals in many critical occupations because the pay disparities with the private sector are so extreme.

I'd like to provide an illustration of the problem. If you joined the government in 1978 as an entry level accountant at the Social Security Administration you would have drawn a salary of $12,336.00 That salary would have been roughly equivalent to the salary of entry level accountants in the private sector. Today, if you had progressed to a GS14, Step 4, you would be earning $55,376.00. At first blush that seems like quite a leap. The salary has, after all, quadrupled. However, an accountant in the private sector--assuming a similar career progression--would now be a chief accountant making $89,563.00 today. That's a pay difference of almost 60%!

You would find a similar problem with secretaries, although the disparity is not quite as large. The salary of an entry level secretary in 1978 was $8902.00. That was roughly equivalent to the salary level of entry level secretaries in the private sector. If that same secretary progressed to a GS7, step 4 today, s/he would be earning $22,214.00. Yes, the salary has tripled--but that same secretary would be earning 26,477.00 in the private sector. That's a pay difference of 19%!

To date, you and other responsible Members of the Committee have resisted temptations to implement quick fixes to address the occupational shortages. I would like to commend your leadership and foresight in recognizing the breadth of the problem. Pay disparities permeate much of the federal workforce. We need a comprehensive plan to reform pay--not quick fixes.

I also want to applaud your efforts in putting together a comprehensive pay reform proposal. Your bill sets the framework for future discussion. I strongly support the provision that provides for an annual automatic pay adjustment for general schedule employees which will not be held hostage to politics. I believe linking comparability to an index that can only be overturned by law is a good idea. Under current law, the president's ability to recommend less than a cost of living adjustment has made federal pay comparability provisions all too easy to circumvent.

It also seems prudent to address some of the most severe pay disparities with a locality based mechanism for adjusting pay. This will provide the government with the flexibility it needs to attract workers in shortage occupations and in high cost areas.

But I want to provide a note of caution. There must be some flexibility for determining when and how locality pay adjustments will be made and how locality pay areas are grouped. If not, the results might cause unintended problems.

There are unique geographic areas of the country where great distances do not separate labor markets. We must be cautious about creating a pay system that potentially pits neighbor against neighbor. I'd like to give you an example of what I mean.

Suppose locality pay boundaries are drawn in such a way that Washington, DC and Baltimore, Md. are two separate locality pay areas. Suppose further there are two women who live across the street from each other in Columbia, Maryland and both work as secretaries for the US Customs Service, one in the DC office and one in the Baltimore office. If Washington, DC employees received a locality based adjustment and Baltimore workers did not, you would have an inequitable situation on your hands. You have two employees who perform the same job for the same government agency and live in the same area who might receive substantially different pay levels merely because one employee travels south to her job and one travels north.

No matter who defines the boundaries, we must be cognizant of this type of situation. We all know the price low morale has cost the federal government. Pay reform should be a remedy for our morale problem rather than a cause of it.

I know your bill provides for the creation of a Federal Salary Council which would, among other things, define geographic locality pay boundaries. I would like to recommend that where these unique geographic labor markets do exist, the Council be required to give careful consideration to this problem and possibly draw boundaries on a regional basis.

In closing Mr. Chairman, I would like to make one critical point. The federal pay system is in disarray because there has been an unwillingness to give federal employees the raises needed to keep pace with the private sector. Regrettably, the need to achieve substantial reductions in the deficit--rather than careful policy planning--has become the driving force behind government policy-making in both the Congress and the Executive Branch.

We need to reverse this trend. Since 1981 federal employees and retirees have had to absorb over $119 billion in benefit cuts. The President's FY91 budget request seeks an additional $4.1 billion in cuts from those same programs.

Pay reform legislation by itself, however, will not solve the government's pay problems unless it is paired with enough money to fund the reform in a meaningful way. We must be prepared to make that commitment. Your plan would wisely implement pay reform over time. This will help to defray the significant costs associated with comprehensive reform.

I believe that your leadership and that of Rep. Ackerman in the House, coupled with the OPM Director's stated willingness to work with the Congress on this issue lends it the momentum needed to make pay reform a reality this year. I stand ready to help in this effort in any way I can and look forward to working closely with you.

Classification and Compensation Society

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March 20, 1990

The Honorable John Glenn
Chairman, Committee on Governmental Affairs
United States Senate
Dirkson Senate Office Building
Washington, D.C. 20510-6250

Dear Senator Glenn:

It is a pleasure and a valued opportunity for our organization to address the Committee on a matter so critical to the future of civil service--Federal Pay Comparability Reform. Your efforts especially have been recognized and appreciated not only by those who follow such matters, but indeed by federal employees everywhere. We trust that your endeavors will reach fruition this year with successful passage of comprehensive pay reform legislation.

We have provided written testimony to accompany this letter, setting out the Classification and Compensation Society's position on the issue of federal compensation, as well as offering several suggestions for improvement of aspects of S. 2274. We hope that you will be able to make this part of the public record of the deliberations on the bill.

Sincerely,

Eugene Michael McCarthy

Eugene Michael Mc Carthy
National President

"Professionalism in Classification and Pay"

Classification and
Compensation Society

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TESTIMONY
SUBMITTED TO THE SENATE GOVERNMENTAL AFFAIRS COMMITTEE

MARCH 22, 1990

Chairman Glenn and Members of the Committee:

The Classification and Compensation Society would like to extend its appreciation to you and your distinguished colleagues for giving us this opportunity to present testimony concerning pay reform of the federal compensation system, including your proposed bill, the "Federal Pay Comparability Reform Act of 1990," S.2274. We have a unique interest since the Society was established in 1969 to further compensation management and position classification as professional disciplines, with a particular focus on their use in the federal personnel system.

Since its founding the Society, a non-profit, non-partisan technical and professional organization, has grown to 18 chapters in major cities throughout the country. There are also many unaffiliated members in numerous states and various foreign countries in Europe, Asia, and the Americas. Our main objective is to promote improvements in federal and other personnel management systems, methodologies and institutions, emphasizing compensation management, job analysis/evaluation, and organization design. This is why we are submitting this statement to you today.

The Society has long been an advocate of the concept of locality pay as a basis for the federal compensation system. This is not a new compensation theory, but one that dates back to the Classification Act of 1923. In that legislation the Congress tasked a hybrid Executive entity called the Personnel

"Professionalism in Classification and Pay"

Classification Board to extend the coverage of the Act to the Government establishment outside of Washington. In 1928, the Congress felt that they had to pass further legislation instructing the Executive Branch to study the feasibility of applying locality pay to the federal government nationwide. I'm sorry to say that it has been more than 60 years and the government is still studying the issue of locality pay.

At this time the Society would like to go on record as observing that locality pay is not a complicated concept, certainly not one requiring sixty years of study. As a matter of fact, we look at it as almost intuitively understandable, especially by the average citizen and by that great body of civil servants whom we are proposing to pay on that basis. Locality pay can be explained to them as an inherently simple proposition.

In every labor market in which it finds itself, the government functions as simply another competitor, a buyer of labor. It may be other things, but it is always that. In order to be able to get its necessary share of the talent in that labor market it must be viewed as a fair employer, one with respect for its workers and one willing to pay a reasonably competitive wage. That's where locality pay comes in. The federal government should simply act as a good neighbor in a particular labor market, neither paying more than the general range of rates for comparable work, nor paying radically under the market. By matching, to the extent it can, the general trend of salaries in the community, the government avoids being either an unfair competitor or a non-competitor. From the government's standpoint, to paraphrase Polonius, it's good advice to "neither a leader nor a follower be."

We applaud your efforts, Senator, to bring rationality and competitiveness back to the federal system, and we are pleased that your bill has at its centerpiece the concept of locality pay. Nevertheless, we would like to suggest that the use of "pay relatives" as the mechanism for determining Locality-Based Adjustments seems unnecessarily complicated, and would not be readily comprehensible to the general public or the mass of employees affected by it. We in the Society are not persuaded that the percentage difference between the average of salaries paid to non-federal employees in Cleveland with the average of those in the same general occupational categories elsewhere in the country is a number that has much to do with the salaries the government should pay to workers in a given occupation, such as Engineering Technician, in a given locality, such as Cleveland.

Since there is no such thing as a national salary rate for any occupation, in order to be competitive the government should pay its Engineering Technicians in Cleveland salaries determined in relation to the pay generally received by other Engineering Technicians in Cleveland. This does not imply that there is a precise, one-to-one relationship, or one "true" rate for technicians, but rather a general array of rates in a locality which, when collected and examined and put into the context of an overall personnel system, can inform one's judgement as to the necessary range within which an organization needs to pay in order to be competitive in that locality. No ratio derived from a "national average" has anything to do with salaries in Cleveland, unless of course all employers in Cleveland operate on the misapprehension that there is a single nationwide rate of pay for an occupation.

We stated earlier that all labor markets are essentially local--there is no such thing as a national market. We would cite as our authority for that observation none other than Dr. Howard Risher, the noted private compensation consultant who most recently performed a study for the Office of Personnel Management with which I'm sure you're quite familiar. Risher was cited in an official OPM publication, the Personnel Research Conference Proceedings, as observing that "The common belief is that there is a national labor market for professional level positions. The reality" according to Risher "is that the national labor market does not exist." In other words, pay rates are not uniform for any occupation nationwide.

If no national labor market exists then the government's attempt to maintain the fiction or the trappings simply reflects an unwillingness to let go of the past. Comparison of salaries for broad occupational groups in a locality with some nationwide figure, however generated, is simply a vestige of that nostalgia for simple answers. Yet the result is only greater complexity.

It seems to us that the use of pay relatives--the term sounds vaguely like some new form of nepotism--adds nothing to the precision of the measurement of the market, yet does detract from the clarity of the concept. Which brings us to the other major technical objection with the bill.

The use of broad occupational categories to break down the Locality-Based Adjustments is an attempt to better match the market in a locality. The groupings in the bill seem essentially subjective, however, being based on categories originally chosen for ease of data collection. Such categories need to be defined if they are to be useful, yet they will become inflexible by being placed in legislation. The hair splitting involved in placing occupations within these arbitrary categories will be horrendous, and to no practical purpose. Trying to split the data too finely implies a spurious precision to a process that is disorderly and imprecise.

We would offer for your consideration the thoughts of one of the founders of the federal personnel system and a pioneer in the human resource discipline, Lewis Merriam, speaking back in 1931. His words are as penetrating today as they were then.

> Data regarding what other employers pay for work of a like character are collected to give a general view of the conditions in comparable private enterprise and public employment...These detailed lists create a general impression, not a sharply focused picture. They tell roughly what the general level, the general range, is on the outside; they do not furnish an exact salary because as a rule an exact salary does not exist. The answer is not in one figure, it is in a mass of figures. They give not a precise measure; they furnish perspective.

Instead of such a precisely honed measurement system as called for in the bill, we would suggest the following procedure. Collect the data in the locality by using the traditional wage survey technique of key job matching, as is done under the current comparability process, and in the Federal Wage System now covering hundreds of thousands of federal blue-collar workers. Then simply generate percentage increases for each grade level, or even a single percentage increase figure for the schedule as a whole, for that locality, and within funds available try to get as close to that figure as possible. While this is not as accurate as determining occupational pay in each locality, nor as elegant technically, it is a quantum leap forward for the federal government, which has been maintaining the fiction of a national labor market for all occupations for about 70 years. It also has the inestimable benefit of being readily understandable to all concerned.

These criticisms, however, are meant in constructive fashion. It is the Society's opinion that your bill, and a similar one in the House, will serve as the basis for truly landmark legislation this year, legislation that is sorely needed and which we wholeheartedly support. However, since such legislation will establish the framework by which our government will function into the 21st Century, it is important to create the strongest and most soundly based system possible.

Therefore, we would like to suggest some other areas of possible improvement. For instance, this bill also liberalizes the Special Rates mechanism, eliminates the restriction to grades GS-11 and above of higher than minimum starting salaries, and adds a category called "Critical Pay Positions." We think that taken together these measures are examples of a degree of overkill, given that the major purpose of S. 2274 is to correct the overall deficiencies in the pay system. We look with a somewhat jaundiced eye on any measures designed to single out special groups for special treatment. If the basic design of this bill is correct, and it is, then there is no need to continue to add special mechanisms to take care of special constituencies and to solve disappearing problems.

Special Rates may still be necessary to take care of occupations that because of supply and demand factors have gotten out of line with the pay relationships within the rest of the schedule. Legislation already on the books should be sufficient to deal with what will hopefully be a diminishing problem, once the basic corrective features of the bill work as intended. Also, hazard pay should not be mixed with recruitment problems. Each is distinct and should be treated separately in a compensation plan.

Concerning Critical-Position Pay Authority, the Society has some reservations. While this will apply initially to only 100 positions throughout the entire government, we would point out that that was essentially the way the supergrades began. Our major concern however is that there are essentially NO criteria for selecting and fixing the pay of these individuals. Any misuse of this authority will redound to the detriment of the civil service as a whole, making an already reluctant public even more skittish in supporting the funding levels necessary to run a competitive civil service. Some specific criteria and controls for this category should be developed and written into the bill, or the concept should be abandoned for now.

There are some miscellaneous areas of concern that we would like to touch on briefly, in the interests of improving the bill. S.2274 specifically makes Locality-Based Adjustments a part of base pay for all purposes except pay retention. While no employee should get a windfall through the transfer process, pay retention is a technique simply to keep employees whole--it ensures that no employee actually takes a pay cut. While there is no technical justification for an employee retaining a rate designed for one area when he/she moves to a lower wage area, or one without an adjustment, practical as well as humanitarian considerations do come into play.

An employee could conceivably accept a promotion, yet under Section 3 of the bill be forced to lose actual dollars when moving to a higher grade but out of a Locality-Based Adjustment area. Think what a chilling effect such a provision will have on geographic mobility. We will be reversing our current problem. Whereas now we cannot get people to move to the higher cost areas at the same salaries, we will find it difficult to entice people to sacrifice real income to move to smaller places in the interests of the government. This is really a policy question that can be argued either way, but perhaps a transition period could be built into the bill so as to make a move from one locality to another less potentially punishing.

The Society believes that the use of the ECI as the mechanism for generally adjusting pay scales is reasonable and prudent, although we agree that a periodic survey of actual rates paid is required to maintain an accurately calibrated baseline. However, we do have some concerns about the one year delay in implementing data from the ECI. In our reading of the bill 1991 will allow for two salary increases--one in January under the current comparability formula, and one in October using ECI data--yet neither would be based on data that could be described as reasonably current. There seems to be no reason for building in a year's delay, either in 1991 or in the outyears. Federal employees will be in the position of getting to the station a year after the train has left. Perhaps some form of a moving average could be used to capture data closer to the actual implementation date each year.

While there are other points that could be made concerning the federal competitiveness problem and your thoughtful and articulate response to solving it, the Society would like to close its commentary by recalling the words of one of our great Presidents. John F. Kennedy, in his acceptance speech at the 1960 Democratic Convention, articulated a vision of the future, which he called the New Frontier:

> Beyond that frontier are the uncharted areas of science and space, unsolved problems of peace and war, unconquered pockets of ignorance and prejudice, unanswered questions of poverty and surplus. It would be easier to shrink back from that frontier, to look to the safe mediocrity of the past, to be lulled by good intentions and high rhetoric....
>
> But I believe the times demand invention, innovation, imagination, decision.....we can have faith in the future only if we have faith in ourselves.
>
> For the harsh facts of the matter are that we stand on this frontier at a turning point in history. We must prove all over again whether this nation--or any nation so conceived--can long endure....
>
> Can a nation organized and governed such as ours endure? That is the real question. Have we the nerve and the will?... Are we up to the task--are we equal to the challenge?...or must we sacrifice our future in order to enjoy the present?
>
> That is the choice our nation must make--a choice that lies...between the public interest and private comfort --between national greatness and national decline ....between determined dedication and creeping mediocrity.

John Kennedy's perception of the future in 1960 is equally applicable today. A competitive nation depends on a strong civil service, and the health of the civil service depends on the government's ability to renew and replenish its talent. Pay reform for the federal service is not a popular issue with the voters, however. The easy way would be, in Kennedy's words, to look to the safe mediocrity of the past, lulled by good intentions and "more promises to this group or that....more assurance of a golden future, where taxes are always low and subsidies ever high." But that is not the path John Kennedy called on us to follow in 1960.

In 1990 the Society hopes that the Congress is equal to the challenge, and will make the difficult but necessary commitments to keep the civil service of the United States from being overtaken by "creeping mediocrity." Kennedy also observed in that speech that "the only valid test of leadership is the ability to lead, and lead vigorously." It is up to the Congress to lead the people of this nation on this issue.

THE FORUM

of United States Administrative Law Judges

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Washington, D.C. 20026-4337

The Federal Administrative Law Judges Conference

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March 25, 1990

The Honorable John Glenn
Chairman
Committee on Governmental Affairs
United States Senate,
Washington, D.C. 20510

Dear Chairman Glenn:

The Federal Administrative Law Judges Conference and The Forum of United States Administrative Law Judges, professional organizations which represent Administrative Law Judges appointed under 5 U.S.C. 3105, request that the attached joint statement and Forum's Case Study on Recruitment and Retention Concerns of federal Administrative Law Judges be made part of the record of the hearings on S. 2274. We also request the opportunity to testify in any further hearings on S. 2274 or with respect to other pay reform legislation which may be introduced.

For the reasons set forth in our joint statement and the Case Study, we urge amendment of S. 2274 to establish a discrete pay scale for Administrative Law Judges outside of the General Schedule which would provide for judicial pay comparable with the Senior Executive Service.

Our proposals would help to remedy a growing crisis which threatens to destroy the adjudicatory process of the more than thirty federal agencies that employ Administrative Law Judges. Because of inadequate judicial compensation, the federal agencies cannot now recruit competent and qualified people to Administrative Law Judge positions. In addition, federal agencies are in danger of losing their senior experienced judges, most of whom are now eligible for immediate retirement.

Your consideration of our views is greatly appreciated.

Sincerely yours,

Victor J. Palmer
Judge Victor J. Palmer
Legislative Chairman
The Federal Administrative
Law Judges Conference

Bruce L. Birchman
Judge Bruce L. Birchman
Legislative Chairman
The Forum of United States
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STATEMENT OF

THE FORUM OF UNITED STATES ADMINISTRATIVE LAW JUDGES

AND

THE FEDERAL ADMINISTRATIVE LAW JUDGES CONFERENCE

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

CONCERNING S. 2274

March 25, 1990

Submitted by

Judge Bruce L. Birchman
Legislative Chairman
The Forum of United States
Administrative Law Judges
202-357-0544

Judge Victor J.Palmer
Legislative Chairman
The Federal Administrative
Law Judges Conference
202-447-6645

Mr. Chairman and Members of the Committee:

Our comments today are offered on behalf of The Forum of United States Administrative Law Judges, a professional organization which represents exclusively Administrative Law Judges at grades GS 16, 17, and 18 of the General Schedule, and by The Federal Administrative Law Judges Conference, a professional organization which represents Administrative Law Judges at GS-15, 16, 17, and 18..

We urge your support to remedy an oversight in S.2274. We recommend the inclusion in S. 2274 of language to establish a discrete judicial pay scale outside of the General Schedule and comparable to compensation for the Senior Executive Service (SES). This discrete judicial pay scale either should parallel subchapter IX of H.R. 3979 (pending before the 101st Cong. 2d Sess.), the Federal Employees Pay Comparability Act, or, alternatively, fix judicial pay as a percentage of Executive Level IV. This new judicial pay scale is necessary to avoid destruction of the adjudicatory process which relies upon Administrative Law Judges in thirty federal agencies. At present salary levels these agencies no longer can recruit competent senior lawyers from within the federal government and from private practice to become Administrative Law Judges. Nor, at current salary levels, are these federal agencies likely to retain their senior judges, most of whom are eligible for immediate retirement.

Federal Administrative Law judges have unique statutory responsibilities. Administrative Law Judges preside over complex litigation in more than 30 federal agencies. Their cases involve such matters--to name a few--as antitrust, the prices of natural gas and electricity, securities and commodities regulation, postal rates and mail classifications, mine and consumer health and safety, the environment, telecommunications, immigration, airline mergers, discrimination in housing, and the granting of social security disability, old age, and retirement benefits. Often, these cases involve billions of dollars and important matters of national policy, such as the location and financing of the Alaska natural gas pipeline.

The Supreme Court as well as the Congress has repeatedly recognized that the administrative law judiciary is the linchpin of agency decisionmaking. In Ramspeck v. Federal Trial Examiners Conference, 345 U.S. 128 (1953), the Supreme Court recognized that the Administrative Procedure Act of 1946, 5 U.S.C. 551 et. seq., required agency adjudications by decisionally independent and impartial hearing examiners, who would not be mere "rubber stamps" for the prosecuting arm of the agencies. More recently, in 1978, the Congress, when it changed the name of hearing examiner to that of administrative law judge, P.L. 95-251, 95th Cong., Senate Report No. 95-697, U.S. Code Cong. & Admin. News at 497 (1978), and the Supreme Court in Butz v. Economou, 438 U.S. 478, 513-14 (1978), recognized that administrative law judges are functionally comparable in their duties, responsibilities, and tenure to Article III federal judges.

When the Senior Executive Service was created in 1978, agency General Counsels, Deputy General Counsels, and Associate General Counsels were removed from the General Schedule under which they and the Administrative Law Judges had been paid as GS 16, 17, and 18 supergrades. Agency General Counsels, Deputy General Counsels, and Associate General Counsels were placed in the Senior Executive Service, where, unlike the judges, they became eligible for performance bonuses and merit pay. Additionally, their starting pay was greater than the judges under the General Schedule, and their maximum pay was greater than the judges (Executive Level IV for the SES compared with Executive Level V for the judges under the General Schedule) Congress exempted Administrative Law Judges from inclusion in the SES because performance bonuses and merit pay would have infringed the judges' statutory decisional independence.

As time passed, the pay of the SES increased much more rapidly that the pay of Administrative Law Judges under the General Schedule, resulting in serious distortions and inequities between judicial pay and SES pay. These distortions now threaten the integrity of the administrative law judiciary and the adjudicatory process in 30 or more federal agencies. The table that follows clearly shows that these distortions will worsen in 1991 when the 25 percent pay raise is paid to the SES and is withheld from the judges. (300 of the 600 supergrades under the General Schedule are judges.)

Pay Comparison of Administrative Law Judges (ALJ)
and
Senior Executive Service (SES)

Pay SES vs. General Schedule (GS)

	1989	1990	1991
ES-6	$80,700	$83,600 1/	$104,500 2/
GS-18	$75,500	$78,200 3/	$ 93,484 4/
		$93,484 (if no pay cap)	
ES-5	$78,600	$81,400	$101,000
GS-17	$75,500	$78,200	$79,762 - $90,398
		$79,762 - $90,398 (if no pay cap)	
ES-4	$76,400	$79,200	$ 97,000
GS-16	$67,028-$75,500	$69,451 - $78,200	$69,451 - $86,251
		$69,451 - $86,251 (if no pay cap)	
GS-15	$57,158-$74,303	$59,216 - $76,982	$59,216 - $76,982
ES-3	$74,900	$77,600	$ 92,000
ES-2	$71,800	$74,400	$ 88,000
ES-1	$68,700	$71,200	$ 84,000
GS-16 Avg.	$75,198	$77,899	
GS-15/10	$74,403	$76,982	
GS-15 Avg.	$68,199	$70,655	

1987 Average Annual Salary Equivalent to Average GS-15 Salary in Private Industry - Per U.S. Bureau of Labor Standards

$105,000

Number of Personnel

Total		Total
SES	8,000	GS-15 ALJ - 700
		GS-16 ALJ - 300
		GS-17-18 ALJ - 12
		GS-16-18 TOTAL - 600 approx.

1/ ES-6 is equivalent to Executive Level IV which is the ceiling for SES pay.

2/ The 25% pay raise applicable 1/1/91 increases Executive Level IV and ES-6 to $104,500.

3/ Executive Level V is the ceiling for the General Schedule and is capped or asterisked at $78,200, and, but for the pay cap, would increase to $93,484. See Schedule 1-B--General Schedule, Executive Order 12698 of December 23, 1989,54 Fed. Reg. 53473 et seq.

4/ The 25% pay raise applicable 1/1/91 increases EL V to $97,800 in 1991 but was *not* authorized for the General Schedule which is capped at $93,484.

Some of the most significant distortions shown by the foregoing table are the following:

* The pay of executives at ES-6, which includes agency General Counsels and Solicitors and is the equivalent of Executive Level IV, in 1991 will be $104,500; however, a Chief Administrative Law Judge at GS-18 will be paid at $93,484. Put another way, a GS-18 Chief Judge who is a bureau chief with responsibilities comparable to bureau chiefs at ES-6 will be paid slightly more than a much lower level executive at ES-3, and well below the $97,800 pay ceiling for Executive Level V.

* The pay of executives at ES-5, which includes Deputy General Counsels and Deputy Solicitors, in 1991 will be $101,100; however,the pay of a counterpart GS-17 Deputy Chief Judge will be limited to $90,398.

* The pay of executives at ES-4, which includes Assistant General Counsels, Regional General Counsels, and Chief Program Counsels, in 1991 will be $97,000; however, the pay of a GS-16 judge will be limited to $86,251.

* The pay of executives at ES-1 to ES-3, which includes Regional, Associate and Deputy Chief Counsels, Regional Chief Counsels, District Chief Counsels and their counsel, in 1991 will range from $84,000 to $92,000; however, the pay of GS-15 judges in 1991 will be the same as it was in 1990 and will range from $59,216 to $76,982. The pay of approximately 100 judges at GS 15, Step 10 is now equivalent to the pay of an executive at ES-3; yet, in 1991, the pay of a judge at GS 15, Step 10 will remain at

$74,403, while the pay of an executive at ES-3 will increase from $74,400 to $88,000.

The foregoing pay distortions contrast sharply with the situation prevailing prior to the creation of the SES. Then, for example, Administrative Law Judges, and federal agency General Counsels, Deputy General Counsels, and Associate General Counsels were paid comparably under the General Schedule as supergrades (GS-16, 17, and 18).

The foregoing pay distortions seriously undermine the ability of federal agencies to recruit as Administrative Law Judges qualified and competent senior counsel from within the federal government as well as from the private sector. Prior to the creation of the SES in 1978, the primary candidates for judicial vacancies were federal agency General Counsels, Deputy General Counsels, and Associate General Counsels as well as lawyers with specialized expertise from private industry. In recent years, however, these sources of candidates have dried up and are virtually non-existent. Now, the largest source of Administrative Law Judge candidates comprise lower level and less experienced General Schedule grade 13 and 14 government attorneys and solo general practitioners.

In addition to this serious recruitment problem, the present inadequate judicial compensation will impede the retention of valued senior experienced judges. The administrative law judiciary is exceedingly "gray" and will undergo a cycle of mass retirement unless S. 2274 provides for judicial pay comparable to the SES.

Approximately 40 percent of the judges--406 of the more than 1000 Administrative Law Judges-- can retire today. Another 17 percent, or 168 more judges, will be eligible for retirement within three years. Stated differently, more than half of the judges can or will soon be in a position to retire.

A concrete example of the difficulties encountered in recruiting competent and well qualified judicial candidates for vacant judicial positions and the problem of retaining senior experienced judges is the situation at the Federal Energy Regulatory Commission (FERC). Three of the twenty-one Administrative Law Judge positions at FERC were vacant for more than one year. Judicial candidates listed on a register administered by the Office of Personnel Management for appointment to vacant Administrative Law Judge positions have not possessed suitable specialized experience to preside in the complex multi-party litigation at FERC. The low level $78,200 Executive Level V ceiling for judicial positions has inhibited applications for the vacant judge positions at FERC by specialized attorneys in the private sector and by senior federal attorneys. Only after more than a year of effort was FERC recently able to fill one of the three vacant positions--and then, only by means of a lateral transfer by a well-qualified judge from another specialized agency. Robbing Peter to pay Paul is not the way to run an efficient government-wide personnel program.

To appreciate the inadequate nature of judicial compensation which is adversely impacting judicial recruitment and will prompt mass retirements at FERC, one need only look at the $80,000 starting salaries (not counting an annual bonus and other fringe benefits) offered by the private bar to departing judicial law clerks at FERC with 1 1/2 years of experience. In stark contrast, the typical FERC judge with 25 years or more of specialized judicial experience is now paid the maximum $78,200 GS salary.

Twelve of the 21 Administrative Law Judges at FERC are eligible immediately for full retirement because they are well beyond age 50 and have more than 30 years of federal judicial service. These judges represent a valuable federal resource. Their mass departure would jeopardize the agency's ability to carry out its statutory responsibilities.

Correspondence in the appendices to this statement from the Chairmen of the Federal Energy Regulatory Commission, National Labor Relations Board, Environmental Protection Agency, the Merit Systems Protection Board, and the International Trade Commission underscore the need for judicial pay comparable with SES pay to obviate serious recruitment and retention impacts.

The reports of the Congressional Bipartisan Task Force on Ethics, the Volcker Commission, and the Quadrennial Pay Commission call for the correction of distortions in pay between Administrative Law Judges and federal executives in the SES.

Recommendation Number 4 of the President's Commission on

Executive, Legislative and Judicial Salaries--the Quadrennial Pay Commission--urged remedial legislation to establish administrative judicial pay comparable to the SES.

Recommendation Number 5 of the Task Force on Pay and Compensation of The National Commission on the Public Service--the Volcker Commission-- recommended that Congress reexamine compensation of special occupations in the General Schedule and cited Administrative Law Judges as an example of this critical need for reexamination.

For these reasons, Forum and FALJC urge that S. 2274 be amended to provide for a discrete judicial pay scale outside the General Schedule and comparable to the SES. This can be accomplished by the inclusion of language which parallels subchapter IX of H.R. 3979 or by provision for judicial pay that is reflected as a percentage of Executive Level IV.

The discrete judicial pay scale in H.R. 3979 (101st Cong. 2d Sess.) 10 provides for three or more rates of basic pay that would be outside the General Schedule and not limited by Executive Level V. These rates of pay would be subject to adjustment by Executive Order and, as now, subject to classification by the Office of Personnel Management. The lowest rate of pay would not be less than the rate of basic pay for GS-16, Step 1 and the maximum rate of pay would not exceed Executive Level IV.

Alternatively, S. 2274 might provide for judicial compensation as a percentage of Executive Level IV compensation.

For example, S. 2274 might provide that, notwithstanding any other provision of law, Administrative Law Judges appointed under 5 U.S.C. 3105 (and contract appeals board members appointed under section 8 of the Contract Disputes Act of 1978) who are classified by OPM to receive basic pay at the rate of GS-17 and 18 shall be paid at the rate of pay for Executive Level IV; judges (and contract appeals board members) who are classified by OPM to receive basic pay at the rate of GS-16 shall be paid at 95 percent of Executive Level IV; and judges who are classified by OPM to receive basic pay at the rate of GS-15 shall be paid at 85 percent of Executive Level IV.

Amendment of S. 2274 as we have suggested will preserve the integrity of the administrative law judiciary; ensure retention of senior experienced judges, more than 40 percent of whom are immediately eligible for retirement; and foster recruitment for judicial vacancies of senior government attorneys who are now part of the SES--agency General Counsels, Deputy General Counsels, and Associate General Counsels who, prior to the creation of the SES, were under the General Schedule, were paid the same as the judges, and were the primary candidates for judicial vacancies.

It should be recognized, however, that correction of this oversight in S. 2274 will fall short of addressing a principal concern of S. 2274--the ability of the federal government to attract competent specialized counsel from the private sector. In this respect, a discrete pay scale for the administrative judiciary with pay comparable to the SES will not meet the need for diversity within the administrative law judiciary because the compensation, in many instances, will be below that paid to competent specialized counsel in the private sector.

In addition to the foregoing comments, we also are submitting for consideration and inclusion in the record Forum's Case Study of Recruitment and Retention Concerns. The Case Study sets forth in greater detail the unique tenure and responsibilities of federal Administrative Law Judges. The Case Study compares pay of the judges with that of the SES and attorneys in the private sector. The Case Study reflects the distortions in judicial pay that are shown in the table set forth above which compared judicial pay with SES pay. The Case Study reinforces the need to remedy an oversight in S. 2274 by establishing a discrete judicial pay scale which will preserve the integrity of the administrative law judiciary by fostering retention of valued senior judges and the recruitment of competent and specialized senior federal attorneys in the SES.

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D. C. 20426

CHAIRMAN

TO JUDGES FOR INFO

December 22, 1989

Honorable Constance B. Newman
Director
Office of Personnel Management
Washington, D. C. 20415

Dear Ms. Newman:

The purpose of this letter is to share with you my deep concern at the difficulty we are having in recruiting and retaining top caliber administrative law judges to perform the hearing mission of the Federal Energy Regulatory Commission. This difficulty results primarily from the current rate of pay for administrative law judges. I am enclosing a copy of a letter I sent the President on December 4, 1989, concerning this problem.

As you will note from my letter to the President, the problem results from a disparity in the pay of those employees in the Senior Executive Service, and those employees in the so-called "super grades". It should be kept in mind that when the Senior Executive Service was formed, the people taken in were the "super grades". The administrative law judges were specifically left out of the Senior Executive Service because of the performance standards and performance review requirements that would obviously impinge upon their decisional independence. At the same time, there was a definite link between the "super-grade" pay and that of the Senior Executive Service. I believe that it is in the public interest to retain pay comparability between the "super grades" and the Senior Executive Service. It should also be kept in mind that the administrative law judges did not elect to stay out of the Senior Executive Service, but rather, they were never given an opportunity to become a part of it.

As you will also note from my letter to the President, we are faced with a real crisis situation at this agency in recruiting and retaining persons with the requisite experience and training to perform the administrative law judges' duties. As I pointed out, 12 of our 22 administrative law judges are fully retirement eligible and could leave at any time, and two others have already asked to be relieved of cases in order that they can interview for Senior Executive Service and private industry jobs.

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D. C. 20426

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The reports of the Congressional Bipartisan Task Force on Ethics, the Volcker Commission on the Public Service, and the 1989 Quadrennial Pay Commission all call for the correction of the pay inequities among the Senior Executive Service and the administrative law judges.

I urgently request your assistance in relieving our problem of recruiting and retaining top notch administrative law judges by taking appropriate action to make the super-grade administrative law judges' pay comparable to that of similar positions in the Senior Executive Service.

Sincerely,

Martin L. Allday

Martin L. Allday

Enclosure

NATIONAL LABOR RELATIONS BOARD
1717 PENNSYLVANIA AVENUE. N.W.
WASHINGTON, D.C. - 20570

DIVISION OF [illegible]
FEB 13 12 10 PM '90
NLRB. WASHINGTON. DC

mes M. Stephens
Chairman

February 12, 1990

Honorable Constance B. Newman
Director
Office of Personnel Management
Washington, DC 20415

Dear Ms. Newman:

I understand that OPM is developing an omnibus legislative proposal to adjust the pay scale applicable to administrative law judges and to other senior government officials covered under the General Schedule. As chairman of the agency employing the greatest number of GS-16 administrative law judges, I would like to respectfully suggest some important considerations which may be of assistance to OPM in recommending appropriate increases in compensation for the Board's judges. They may be summarized as follows: (1) The vital role which ALJ's play in fulfilling the Board's statutory mandate; (2) The historical level which the ALJ's have been compensated relative to other Board personnel, reflecting the importance which the Board assigns to the judge's responsibilities; (3) The need to create the necessary financial incentives, in order to recruit the qualified individuals, having the requisite legal ability and training, as well as the preferred experience with the National Labor Relations Act.

The NLRB has two principal responsibilities under the NLRA: (1) to determine and implement, through secret-ballot elections, the free democratic choice by employees as to whether they wish to be represented by a union in dealing with their employers, and (2) to prevent and remedy unlawful acts, called unfair labor practices, by either employers or unions or both. Although the Board has authority to interpret and enforce the Act through administrative rulemaking authority, the Board for the most part performs its responsibilities in a quasi-judicial capacity. Thus, in preventing unfair labor practices, the Board's General Counsel, who is appointed by the President and independent of the Board itself, will investigate charges filed by any member of the public. If the General Counsel believes that a charge is meritorious, he will issue an administrative complaint against the charged party. This work of the General Counsel is carried on at the local level through 33 Regional Offices, which are administered by Regional Directors and supervised by the Washington headquarters of the General Counsel.

Once a complaint issues, the matter is then litigated before an administrative law judge, who presides over a proceeding that in many respects resembles a bench trial before a federal district court judge. Following the hearing, the judge must prepare a written decision in which he makes findings of fact, drawing inferences from the record and making credibility determinations of the witnesses. In addition, the ALJ must propose conclusions of law, which involves the interpretation and application of the Board's jurisprudence to the facts of the case. These decisions can become the Agency's final administrative determination in a case, unless a party choses to seek review of the judge's decision before the five-member Board.

Thus, the relationship between the Board and its administrative law judges is very much like that between an appellate court and a trial court in a uniform state court system. If, upon review, the Board finds that the ALJ rendered a legally correct, factually supported opinion, the Board will typically adopt the judge's decision as if the Board itself had written it. Such decision can therefore be regarded as precedent in the same manner as the Board's own opinions. It bears emphasizing that the Board with great frequency adopts without modification the recommended decision and order of an ALJ. Indeed, the Board would be hard pressed to accomplish in a timely and effective manner its statutory duties to the public without the quality work of its judges.

Under the Act, the Board's decisions are subject to judicial review in the federal circuit courts of appeals, both for the purpose of obtaining enforcement and for determining whether the proceedings were free of legal error. To be sustained, it is absolutely critical that the Board's decisions must be the embodiment of well-reasoned, persuasively written analysis. The Supreme Court has made it crystal clear that for an administrative decision and order to be sustained, "the grounds upon which the administrative agency [must] be clearly disclosed and adequately sustained." SEC v. Chenery Corp., 318 U.S. 80, 95 (1943). Thus, decisions that are insufficiently reasoned or predicated upon improperly conducted hearings may be either denied enforcement or remanded to the Board for further consideration, which of course entails delay, as well as needless expense, in the vindication of the public's rights under the Act. In short, the administrative law judges play a vital, indispensable role in successfully fulfilling the Board's mission.

The Board has historically recognized these important contributions of its administrative law judges, as manifested in the level at which it has compensated them. For nearly three decades, the judges have generally been paid at the GS-16 level, which was the same level generally held by the Board's Regional Directors until the Civil Service Reform Act of 1978 was enacted. Under that law, the Regional Directors became eligible for the Senior Executive Service. However, administrative law judges retained their General Schedule status rather than being included in the SES because certain aspects of the SES (for example, periodic evaluations of performance and eligibility for bonuses) were considered inconsistent with the traditional concepts of judicial independence. Although the pay of ALJ's and Regional Directors after 1978 was not so directly linked as before, as a practical matter for the last twelve years there has been substantial comparability in compensation. This relationship would be severely disrupted if the presently projected changes in the federal pay scale are effectuated without adjustments for the ALJ's. There would thus be the anomaly of the Board's judges earning considerably less than not only the Regional Directors but also some SES attorneys with less experience and responsibility.

Finally, in looking ahead, it is noteworthy that approximately 40 percent of the Board's judges are presently eligible for retirement. Even with some pay increase, we anticipate that in about four years a significant number of our current judges will retire and that the Board will have to actively recruit new candidates. We frankly fear that our ability to attract and retain the best qualified judges will be greatly impaired if salaries are below those earned by other high ranking officials at the Board. Retaining the historic relationship in pay which the Board's judges have enjoyed with these other Board personnel, I am confident, is an investment which will yield high dividends in terms of the Board fulfilling its mission.

For all the above reasons, I would hope that in crafting the new pay legislation, OPM will enable the NLRB to continue compensating its judges at a level commensurate with their role and contributions.

Thank you for giving this matter serious consideration. If you have any questions, please do not hesitate to call.

Very truly yours,

James M Stephens

cc: Frank Hodsoll

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

FEB 26 1990

THE ADMINISTRATOR

The Honorable Constance B. Newman
Director
U. S. Office of Personnel Management
1900 E Street, N. W.
Washington, D. C. 20415

Dear Connie:

I am writing to express my concern regarding the disparity in the pay levels between Administrative Law Judges (ALJs) and Senior Executive Service (SES) members which will result from the pay increases in the Ethics Reform Act of 1989.

The recent reports of the Congressional Bipartisan Task Force On Ethics, the Volcker Commission on the Public Service, and the 1989 Quadrennial Pay Commission on the Public Service all call for an adjustment to the pay levels for ALJs in order to retain parity with SES employees. I strongly support this position.

The Environmental Protection Agency (EPA) is currently recruiting two ALJs to replace two ALJs who retired late last year. In addition, there is a very good possibility that we may be recruiting additional ALJs to hear cases under the Amendments to the Clean Air Act. In this regard, it is extremely important that the ALJs' pay be comparable to SES pay in order that we may continue to attract the very best candidates for these positions. A corps of the most competent and highly qualified ALJs is essential to EPA in order that we may continue to carry out the many mandates legislated by Congress and to implement the President's programs.

I ask you to assist in establishing pay level parity between ALJs and SESs. Without parity, our high standards in recruiting GS-16 through GS-18 positions are threatened if we cannot compete on the basis of pay.

Thank you for your help in this very important matter.

Sincerely,

Bill

William K. Reilly

THE CHAIRMAN

U.S. MERIT SYSTEMS PROTECTION BOARD
1120 Vermont Avenue, N.W.
Washington, D.C. 20419

January 29, 1990

Dear Connie:

I would like to add my voice to the growing chorus of those in and outside government who seek to ensure that pay levels for administrative law judges be adjusted to retain parity with Senior Executive Service members. As you know, numerous government programs depend upon a capable and experienced ALJ corps to maintain and promote fairness and integrity in administration.

The ALJ corps plainly needs and deserves pay parity with the SES. In this era of limited resources, your efforts to place this matter among the top budget priorities would be most helpful and greatly appreciated.

Best regards,

Dan

Daniel R. Levinson

The Honorable Constance Berry Newman
Director
U.S. Office of Personnel Management
1900 E Street, N.W.
Washington, D.C. 20415

The Bicentennial of the U.S. Constitution 1787-1987

CHAIRMAN

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

March 22, 1990

Honorable Constance B. Newman
Director
Office of Personnel Management
Washington, D.C. 20415

Dear Ms. Newman:

I understand that you are considering proposals to correct the wide disparity between pay scales for the Senior Executive Service (SES) and federal administrative law judges. As you know, there has been a widening gap between those two pay scales since the Civil Service Reform Act of 1978. The salary increases for SES personnel contained in the Ethics Reform Act of 1989 increase that gap. Only the pay for performance provisions in that Act kept administrative law judges out of the SES. These provisions conflicted with the judicial independence required for administrative law judges under the Administrative Procedure Act.

The administrative law judges at the United States International Trade Commission hear and decide some of the most complex cases that are heard anywhere in Government. These cases frequently involve patents, trademarks, copyrights, trade secrets, economic issues, and antitrust matters. Large records must be made in these cases, yet the statutory deadlines for these cases require that they be heard and decided in a very short time.

It is essential that the Commission be able to hire and retain qualified administrative law judges who are capable of hearing these complex cases. Our ability to do so will be greatly impaired if the salaries of our administrative law judge continue at a low level. I support any legislative proposal that would remove the existing disparity between administrative law judges and the SES.

Thank you for your consideration of this matter which is of great importance to this Commission.

Very truly yours,

Anne Brunsdale

Anne E. Brunsdale
Chairman

THE FORUM
of United States Administrative Law Judges
P.O. Box 44337
Washington, D.C. 20026-4337

ADMINISTRATIVE LAW JUDGES:

A Case Study of Recruitment and Retention Concerns

Before the Committee on
Governmental Affairs of the United States Senate

Concerning S. 2274

March 25, 1990

Submitted By
Judge Bruce L. Birchman
Legislative Chairman
The Forum of United States
Administrative Law Judges
202-357-0544

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Appendix A Statutory Responsibilities of Administrative Law Judges under the Administrative Procedure Act

Appendix B Total Number of Administrative Law Judges by Grade and Agency

Appendix C Statistical Data Concerning Salaries of Attorneys and Others in the Private Sector

- Table 1: Law Practice Incomes of Partners According to Population
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Table 6: Average Income of General Counsels and Corporate Associate General Counsels for 1987 and Percent of Change, 1987 over 1986

Table 7: Comparison of Average Annual Salaries in Private Industry with Salaries of GS 15 Federal Employees, March 1987

Table 8: Median Compensation, Average Salary, and Total Compensation of All Corporate Employers, 1986

Appendix D Average Age and Length of Service of Administrative Law Judges by Agency, and Retirement Eligibility

SUMMARY AND MAIN CONCLUSIONS

* RECRUITMENT AND RETENTION CONCERNS

Highly qualified attorneys from within the Senior Executive Service (SES) and from the private sector no longer can be recruited by federal agencies as federal Administrative Law Judges because of inadequate judicial compensation. Nor, at current salary levels are federal agencies likely to retain their senior judges, more than 40 percent of whom are eligible for immediate retirement.

Today, over 400 judges of the more than 1,000 judges are eligible to retire. These judges are the cream of the crop. They handle some of the most complex administrative hearings. They were appointed when salary levels were high enough to attract highly qualified lawyers to the administrative law judiciary. Under present salary levels, these judges will be replaced by far less qualified persons. Because Administrative Law Judges, in effect, are appointed for life, the appointment of less qualified persons will result in a severe loss of competence for many years in the administrative law judiciary and a severe deterioration in the quality of adjudication in important federal programs.

* RECRUITMENT CONCLUSION-PUBLIC SECTOR

The maximum base compensation of the Senior Executive Service (SES), exclusive of merit pay and performance bonuses, is at Level IV of the Executive Schedule--$80,770 and will increase in 1991 to $104,500. Because of merit pay and bonuses, the pay of members of the SES in many cases now exceeds the maximum $78,200 pay of Administrative Law Judges at GS-16. Consequently, it is virtually impossible to induce qualified senior government lawyers, most of whom are in the SES, to apply for specialized Administrative Law Judge positions

* RECRUITMENT CONCLUSION-PRIVATE BAR

Attracting qualified attorneys from the private bar to the federal administrative judiciary is impossible. The disparity between judicial pay and private sector attorney salaries is even greater than the disparity between the judicial salaries and SES salaries. As a result, qualified specialized private practitioners rarely apply for Administrative Law Judge positions.

To remedy these serious recruitment and retention problems, S. 2274 should be modified to establish a discrete judicial pay scale outside of the General Schedule and comparable to compensation for the SES. This pay scale should parallel H.R. 3979 (pending before the 101st Cong. 2d Sess.), or, alternatively, fix judicial pay as a percentage of Executive Level IV.

APPOINTMENT AND RESPONSIBILITIES OF ADMINISTRATIVE LAW JUDGES

Administrative Law Judges are appointed under 5 U.S.C. 3105 of the Administrative Procedure Act. As discussed in greater detail in Appendix A, the United States Supreme Court has recognized that Administrative Law Judges are functionally comparable to Article III federal judges.

Administrative Law Judges preside over cases in more than thirty federal departments and agencies. Their cases involve such matters --- to name a few --- as labor relations, the prices of interstate natural gas and electricity, postal rates and mail classifications, mine and consumer health and safety, the environment, communications, immigration, commodity futures trading, airline mergers, violations of the antitrust and securities laws, discrimination in housing, and the granting of social security and other benefits. Often, their cases involve billions of dollars and important matters of national policy, such as the location and financing of the Alaska natural gas pipeline.

Unlike most other judges who are either elected or appointed to office, federal Administrative Law Judges are selected on the basis of merit after a rigorous written and oral examination by the Office of Personnel Management.

As seen from Appendix B, there are over three hundred judges at the specialized regulatory agencies. These senior judges are at grades GS 16 to GS 18 and most of them are at the Executive Level V salary "cap", $78,200. (The remaining 711 judges are at grade GS 15, and most are Social Security judges.)

VOLCKER COMMISSION RECOMMENDATIONS

The President's Commission on the National Service--the Volcker Commission--in its recent report entitled Leadership In America--Rebuilding the Public Service discussed the reasons why the public service is neither as attractive as it once was nor as effective in meeting perceived needs. It provided numerous examples of government's inability to recruit and retain a talented work force and concluded that if these trends continued, America would soon be left with a government of the mediocre, locked into careers of last resort or waiting for a chance to move on to other jobs. Report at 2-4.

To restore the leadership, talent, and performance essential to the strong public service the future demands, the Commission set forth twelve goals, including Goal 9 (that the President work with Congress to give high priority to restoring the depleted purchasing power of executive,judicial, and legislative salaries by the beginning of a new Congress in 1991, starting with an immediate increase of 25 percent); Goal 10 (that the Congress promptly act upon needed pay rAises for judges and top level executives); and Goal 11 (that the President and Congress should give a higher budget priority to civil service pay in the General Schedule Pay System). With regard to Goal 11 and pay in the General Schedule, the Commission further observed that to fill key civil service jobs with qualified employees, federal salaries must stay at or at least close to average levels of pay offered by other employers. Report at 37.

The Volcker Commission established several Task Forces to highlight discrete problems bearing on the recruitment and retention of an effective civil service. The Task Force on Pay and Compensation, by a report entitled Facing The Federal Compensation Crisis issued on April 25, 1989, in Recommendation #4, took cognizance of concerns unique to federal Administrative Law Judges. Recommendation #4 recognized the need to reflect appropriate pay level distinctions within the SES and among special occupations associated with the SES or with supergrade positions, citing Administrative Law Judges as an example of this critical need. Task Force Report at 202.

The Forum of United States Administrative Law Judges (Forum) and The Federal Administrative Law Judges Conference (FALJC) jointly submitted a Case Study to the Volcker Commission similar to this Case Study. The discussion that follows emphasizes why the administrative law judiciary is neither as attractive as it once was and will become less effective in meeting perceived needs in important federal programs unless adequate measures, including adequate compensation, are initiated to recruit and retain a talented judiciary.

QUADRENNIAL PAY COMMISSION RECOMMENDATIONS

Bearing upon the Volcker Commission's concern and recommendations to revitalize the federal civil service, particularly with regard to recruitment and retention and the need to ensure an effective administrative judiciary, are several identical concerns highlighted by the President's Commission on Executive, Legislative and Judicial Salaries--the Quadrennial Pay Commission.

Forum also submitted a Case Study similar to this one to the Quadrennial Pay Commission. In its recent report entitled Fairness For Our Public Servants, the Quadrennial Pay Commission, like the Volcker Commission's Task Force on Pay and Compensation, also recognized the serious inequity in Administrative Law Judges' current compensation and the need to facilitate recruitment of better qualified candidates as Administrative Law Judges.

Recommendation #5 of the Quadrennial Pay Commission's report at page 3 under "Summary of Major Recommendations" requests legislation to raise the maximum salary level for Administrative Law Judges to that of members of the SES.

Of equal importance, at page 21 of this report, the Quadrennial Pay Commission also recognized the severe problems associated with compression of Administrative Law Judges' salaries. The Quadrennial Pay Commission stated that administrative judiciary personnel such as Administrative Law Judges were particularly subjected to compression in the General Schedule. The Quadrennial Pay Commission noted that these "positions lie primarily in the supergrades of the General Schedule, and that salary compression has made it difficult to recruit candidates for the administrative judicial vacancies from among members of the Senior Executive Service and officials of the General Service."

President Reagan adopted the recommendations of the Quadrennial Pay Commission. Had those recommendations been implemented, Administrative Law Judge salaries would have been placed on a parity with the SES and increased to $120,000. At the least, this would have restored to the administrative law judiciary the ability to recruit Associate General Counsels and General Counsels in the SES.

DIFFICULTIES IN RECRUITMENT FROM THE SES

In-government recruitment for judicial positions was exacerbated when Congress created the Senior Executive Service (SES) in 1978. At that time most of the senior civil service employees held supergrade positions (grades GS 16, GS 17, and GS 18) in the civil service General Schedule. The salaries in the supergrade positions could not then and do not now exceed the salary of Executive Level V.

When the SES was created, the supergrade Assistant, Deputy, and General Counsels who were at grades GS 15,16, 17, and 18 joined the SES. Their base compensation was increased to and limited by Executive Level IV which was higher than the Executive Level V ceiling for the General Schedule.

In addition, unlike the remaining 600 supergrade General Schedule positions that are capped by Executive Level V, members of the SES are entitled to merit pay and incentive performance bonuses. Administrative Law Judges, however, were not permitted by Congress to join the SES where they would have been eligible for merit pay and bonuses. Congress took this sound step to insulate the judges from political pressures, to preserve the judges' decisional independence, and to ensure the fairness of the adjudicative process in the federal agencies.

Members of the Senior Executive Service receive greater starting base compensation than GS 16 Administrative Law Judges. The President's Commission report, in this respect, noted that "agencies may provide substantial pay increases to grade 15 employees at any step--to induce them to join the SES." 1/

Executive Level IV now at $80,700 is the ceiling for compensation of members of the Senior Executive Service. The ceiling for Administrative Law Judges compensation is Executive Level V, now at $78,200.

Members of the Senior Executive Service also receive greater total compensation than Administrative Law Judges because they are eligible for annual merit pay ($20,000 Distinguished Rank and $10,000 Meritorious Rank awards) and annual performance bonuses up to $15,500. For example, performance bonuses in FY 1987 averaged 8.1% of base pay. On the other hand, the Administrative Procedure Act, 5 U.S.C. 551 et. seq. and civil service regulations prohibit the payment of merit pay and performance bonuses to Administrative Law Judges because such compensation would give rise not only to the appearance of impropriety but result in an infringement of decisional independence.

Members of the Senior Executive Service also can accrue unlimited amounts of annual leave and upon retirement receive lump sum compensation for all unused and accrued annual leave based upon the individual's current rate of pay. Administrative Law Judges are not permitted unrestricted accrual of annual leave. Under 5 U.S.C. 6304, Administrative Law Judges can only annually accrue 30 days of leave and, upon retirement, receive lump-sum compensation for a maximum of 30 days of accrued annual leave.

It comes as no surprise, then, that it is virtually impossible to induce senior government lawyers, most of whom already are in the Senior Executive Service, to apply for Administrative Law Judge positions.

The disparity in salary levels between the two groups of senior career Government lawyers--Administrative Law Judges and Senior Executive Service senior attorneys--discourages qualified attorneys from seeking to become Administrative Law Judges and

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1/ The Report of the President's Commission on Compensation of Career Federal Executives, February 26, 1988 (President's Commission Report) at 23.

will weaken the quality of the administrative law judiciary.

OTHER PUBLIC SECTOR CONCERNS

Administrative Law Judges' compensation lags considerably behind not only the SES, but also other senior federal employees and lower level federal judges. Salaries of senior Congressional staffers were raised in 1988 to $86,815 for the Senate and $82,500 for the House. Salaries of Bankruptcy Judges and Magistrates in 1988 were increased from the then $72,500 Executive Level V "cap" to 92% of Article III judges pay. Administrative Law Judges at GS 16 and above (13 Chief Administrative Law Judges are at grade GS 18) are capped at $78,200, yet have responsibilities and tenure which are greater in nature than those of the federal Magistrates and Bankruptcy Judges.

LAW FIRM RECRUITMENT DIFFICULTIES

Attracting qualified attorneys from the private bar to the federal administrative judiciary is impossible. The disparity in salaries between the private bar and federal Administrative Law Judges--salaries of partners, senior attorneys, and first-year attorneys--is even greater than the disparity between the judges' salaries and those of the SES, so that qualified specialized private practitioners rarely apply for Administrative Law Judge positions.

EXAMPLE: ALJ SALARIES VERSUS SALARIES OF LAW FIRM PARTNERS

The American Bar Association has concluded that it is appropriate to compare judicial salaries with the salaries of partners in law firms. In A Handbook on State Judicial Salaries, American Bar Association, June 1986, page 7, the ABA states,

> ***Since judges are expected to possess above-average levels of legal proficiency and experience, the salaries of judges should be compared to the law practice incomes of above-average lawyers. Assuming that desired levels of proficiency and experience are reflected in the law practice incomes of law firm partners, it is helpful to compare judges' salaries with the incomes of partners whose incomes are above average.

. 1986--Table 5 of Appendix C demonstrates that the average income of partners in law firms in selected cities during 1986 ranged from $92,000 to $240,000; Administrative Law Judges' salaries were capped at $70,800.

. 1987--In 1987 the average income of partners in law firms ranged from $110,000 to $265,000; Administrative Law Judges' salaries were capped at $72,500.

EXAMPLE: ALJ SALARIES VERSUS SALARIES OF SENIOR ATTORNEYS IN LAW FIRMS

Appendix C, Table 5A, contrasts the 1987 partner salaries shown on Table 5 with salaries of attorneys in law firms with 8 years experience. This comparison is important because an individual applying for Administrative Law Judge must have at least 7 years of qualifying legal experience. In most instances law firm attorneys with 8 years experience exceeded in 1987 the 1988 level of GS 15 compensation through step 7, and, in several instances, approached the 1988 maximum GS 15 compensation of $71,377.

EXAMPLE: ALJ SALARIES VERSUS SALARIES OF FIRST YEAR ATTORNEYS

Administrative Law Judge salaries in 1989 also are grossly inadequate when compared with the 1988 average starting attorney salaries shown in Appendix C, Table 3,which range from $52,500 to $72,842. First year attorneys--attorneys fresh out of law school--were earning in 1988 between 80% to 90% of the maximum $72,500 salary of a GS 16 Administrative Law Judge and as much as a GS 15 Administrative Law Judge.

Starting attorney salaries for 1989 for the major law firms were reported by the New York Times, March 24, 1989, to begin at $82,000. These first-year salaries are almost 10% greater than the maximum $78,200 salary of ALJs at GS 16 to 18 who have more than 25 years of specialized experience!

RECRUITMENT CONCLUSION-LAW FIRMS

These disparities between ALJ compensation and the compensation of partners in law firms, senior attorneys in law firms, and first-year attorneys in law firms militate against their recruitment as Administrative Law Judges.

These disparities confirm the observation of the Volcker Commission's Task Force on Pay and Compensation that "The federal government is losing its competitive position in the hiring of highly qualified men and women for its white-collar workforce, known as the General Schedule." Task Force Report at 228.

CORPORATE ATTORNEY RECRUITMENT DIFFICULTIES

EXAMPLE: CORPORATE GENERAL COUNSELS AND ASSOCIATE GENERAL COUNSELS

Appendix C, Table 6, demonstrates the range of average income of corporate Associate General Counsels in 1987, $73,000 to $145,000, and of General Counsels, $125,000 to $190,000, compared with the Executive Level V salary cap of $70,800 in 1987, $72,500 in 1988, and $75,500 in 1989.

EXAMPLE: MANAGING CORPORATE ATTORNEYS

Appendix C, Table 8, shows that managing corporate attorneys had median compensation in 1986 of $92,805, an average salary of $85,730, and total compensation of $96,309, all well above the 1988 Executive Level V salary cap of $70,800 in 1986, $72,500 in 1987, and $75,500 in 1989.

EXAMPLE: NON-SUPERVISORY CORPORATE ATTORNEYS

Appendix C, Table 8, also shows that non-supervisory corporate attorneys had median compensation in 1986 of $57,309, an average salary of $57,419, and total compensation of $60,882, all well above the first 3 to 4 steps of 1988 pay for Government attorneys at GS 15 ($54,907 to $60,397).

In marked contrast to the above salaries of corporate General Counsels and Associate General Counsels, corporate managing attorneys, and corporate non-supervisory attorneys, Appendix C, Table 7, prepared by the Bureau of Labor Statistics of the U.S. Department of Labor, shows a $105,500 average 1987 salary for attorneys in private industry compared with 1987 GS 15 attorney salaries of $53,830 to $69,976. (GS 16 judges were capped at $70,800 in 1987, $72,500 in 1988, and are capped at $75,500 in 1989.)

RECRUITMENT CONCLUSION-CORPORATE ATTORNEYS

The current salary advantages of corporate Associate General Counsels, corporate General Counsels, managing corporate attorneys, and non-supervisory corporate attorneys is so much greater than the salaries of Administrative Law Judges that they can not be recruited as Administrative Law Judges.

UNDERQUALIFICATION OF CANDIDATES FOR ALJ POSITIONS

The typical private practice candidate for Administrative Law Judge is a solo practitioner whose income level is well below that for partners and corporate line attorneys shown in the attached Tables to Appendix C. The data from Appendix C that were discussed above shows why this is so.

The typical government attorney candidate for Administrative Law Judge is a lower level (GS 13 or 14) attorney rather than the supergrade Associate or General Counsels who, prior to the enactment in 1978 of the Civil Service Reform Act and the creation of the SES, were classified at GS 16 and above and were a significant source of applicants for Administrative Law Judges.

SUMMARY OF RECRUITMENT DIFFICULTIES

The failure to attract highly qualified persons to the federal administrative law judiciary will have long lasting adverse consequences. Today, over 400 of the more than 1,000 or (40%) of all judges are eligible to retire. These judges are the cream of the crop. They handle some of the most complex administrative hearings. They were appointed when salary levels were high enough to attract highly qualified lawyers to the administrative law judiciary. Under present salary scales, these judges will be replaced by underqualified persons. Because Administrative Law Judges, in effect, are appointed for life, the appointment of underqualified persons will result in a severe loss of competence for many years in the administrative law judiciary and a severedeterioration in the quality of adjudication of many important federal programs.

Given the greater compensation of Associate General Counsels and General Counsels in the SES and of attorneys in the private sector compared with the considerably less compensation of the administrative law judiciary, it should come as no surprise that candidates for ALJ positions are far less qualified than their predecessors.

Greater compensation is necessary to attract more qualified attorneys from the SES as well as the private sector.

RETENTION CONCERNS

The problem of attracting competent and well qualified attorneys to the administrative law judiciary is compounded by the great numbers of Administrative Law Judges who may be expected to retire in the next few years, particularly if compensation remains inadequate.

Appendix D shows that in 1988 approximately 40% of all Administrative Law Judges were eligible for full or regular retirement, having attained age 55 with 30 or more years of federal service.

Appendix D also shows that in 1988 more than 28% of the GS 16 Administrative Law Judges were eligible for early retirement, having attained age 50 with 20 to 25 years of service.

Administrative Law Judge compensation is not immune to the effects of inflation. The Volcker Commission's Task Force on Pay and Compensation found that the value of federal compensation decreased more than 35 percent from 1969 to 1988, while private sector executives enjoyed substantial increases in purchasing power and compensation that was higher than federal compensation to begin with. Task Force Report at 206, 222. This erosion in purchasing power and compensation can be expected to impact negatively on Administrative Law Judge compensation which has not kept pace with the compensation of the SES and of attorneys in the private sector, and, in turn, the ability to retain the senior experienced Administrative Law Judges.

Similar conclusions with regard to the erosion of Administrative Law Judges' purchasing power and the need to attract qualified attorneys as well as retain the senior experienced judges were recently expressed by the Quadrennial Pay Commission.

SUMMARY OF RETENTION CONCERNS

Administrative Law Judge salary compression, the continued erosion of their purchasing power, the far less compensation they receive in relationship to other lawyers in the public and private sectors militate against retention of the senior experienced Administrative Law Judges. When these senior judges retire, there will be a great influx of less qualified persons to the administrative law judiciary.

Suggested Amendment of S. 2274

To avoid a heavy loss of senior Administrative Law Judges, a severe crisis of competence, a severe weakening of the administrative law judiciary, and a serious and severe deterioration in the quality of adjudication in important federal programs, S. 2274 should be amended to parallel subchapter IX of H.R. 3979 (pending before the 101st Cong. 2d Sess.) or by provision for judicial pay that is reflected as a percentage of Executive Level IV.

The discrete judicial pay scale in H.R. 3979 provides for three or more rates of basic pay that would be outside the General Schedule and not limited by Executive Level V. These rates of pay would be subject to adjustment by Executive Order and, as now, subject to classification by the Office of Personnel Management. The lowest rate would not be less than the rate of basic pay for GS-16, Step 1, and the maximum rate of pay would not exceed Executive Level IV.

Alternatively, S. 2274 might provide for judicial compensation as a percentage of Executive Level IV. For example, S. 2274 might provide that, notwithstanding any other provision of law, Administrative Law Judges appointed under 5 U.S.C. 3105 who are classified by OPM to receive basic pay at the rate of GS 17 and 18 shall be paid at the rate of pay for Executive Level IV; judges who are classified by OPM to receive basic pay at the rate of GS-16 shall be paid at 95 percent of the rate of pay for Executive Level IV; and judges who are classified by OPM to receive basic pay at the rate of GS-15 shall be paid at 85 percent of the rate of pay for Executive Level IV.

APPENDIX A

APPENDIX[1]

The APA and Judicial Decisional Independence and Impartiality

Administrative Law Judges represented by our Conference conduct hearings and issue decisions in agency adjudications or rulemakings which touch the daily lives of all citizens and affect the national and world economy. Matters encompassed in these on-the-record proceedings include the adjudication of social security, old age, retirement, and disability benefits; international trade; rail mergers; licenses for broadcasting and for hydro-electric utility and natural gas pipeline facilities and operation; rates for postal, energy, and communication services; compliance with federal standards relative to the sale of securities, commodities and futures, trade, labor management relations, food and drugs, housing, banking, advertising, corporate mergers, health and safety in mining, transportation, and other industries; mining or forestry on public lands; voters' rights; school desegregation; equal employment; and protection of the environment, to name but a few.

The Supreme Court found in Butz v. Economou, 438 U.S. 478, 513-14 (1978), that Administrative Law Judges are functionally comparable in their duties and responsibilities to Article III federal judges. In reaching this conclusion the Court reviewed the circumstances which led Congress to enact the Administrative Procedure Act (APA) in 1946.

Prior to the APA there was considerable concern that persons hearing administrative cases at the trial level could not exercise independent judgment. Hearing officers at that time were required to perform prosecutorial and investigative functions as well as their judicial work. They also were subordinate often to executive officials within the agency.

The securing of fair and competent hearing personnel also was viewed as the heart of formal administrative adjudication according to the Final Report of the Attorney General's Committee on Administrative Procedure, 46 (1941).

To remedy these matters, Congress created a corps of Administrative Law Judges, and designed a bill of rights for administrative procedure by the enactment of the APA in 1946.

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[1] Federal Reduction in Force Procedures: Hearings Before the
(Footnote Continued)

The APA invested federal Administrative Law Judges with special status and stature unlike any other federal employee.

Under the APA, Administrative Law Judges may not perform duties inconsistent with their duties as Administrative Law Judges. 5 U.S.C. 3105. When conducting a hearing under § 556 of the APA, an Administrative Law Judge is not responsible to, or subject to the supervision or direction of employees or agents engaged in the performance of investigative or prosecution functions for the agency. 5 U.S.C. § 554(d)(2). Nor may an Administrative Law Judge consult any person or party, including other agency officials, concerning a fact at issue in the hearing unless on notice and opportunity for all parties to participate. 5 U.S.C. § 554(d)(1). Administrative Law Judges must be assigned to cases in mechanical rotation so far as is practicable. 5 U.S.C. § 3105. They may be removed only for good cause established and determined by the Merit Systems Protection Board after a hearing on the record. 5 U.S.C. § 7521(b)(1).[2]

The pay of federal Administrative Law Judges is controlled by the Office of Personnel Management. Administrative Law Judges are excluded by the APA from agency performance rating appraisals. 5 U.S.C. 4301(2)(D). OPM regulations also expressly provide "that an agency shall not rate the performance of an Administrative Law Judge." 5 CFR 930.211. In this respect, Administrative Law Judges are unlike members of the SES who receive bonuses in addition to merit pay and whose performance is rated by the employing agency. Administrative Law Judges are not subject to performance appraisals and can not receive bonuses because this would affect their decisional independence and integrity which is preserved by the APA.

In Ramspeck v. Federal Trial Examiners Conference, 345 U.S. 128 (1953), the Supreme Court stated that Congress enacted the APA to provide tenure for Administrative Law Judges as a special class of semi-independent hearing officers by vesting control of their compensation, promotion, and tenure in the Civil Service Commission [now the Office of Personnel Management] to a much greater extent than in the case of other federal employees. The Court further stated that one of the primary purposes of the APA

(Footnote Continued)
Subcommittee on Human Resources, 99th Cong., 1st. Sess., 84-88 (1985). (Testimony of Judge Bruce L. Birchman)

[2] All other federal employees can be removed prior to hearing and must pursue their hearing rights after their employment ceases. 5 U.S.C. § 7513.

was to establish qualified impartial hearing examiners who would not be mere "rubber stamps" for the prosecuting arm of the agencies.

The merit selection appointment process for an Administrative Law Judge also ensures attainment of the APA goals of judicial decisional independence, integrity, and impartiality. A rigorous competitive examination is administered by OPM. A demonstration of at least seven years of administrative law experience or equivalent litigation experience is required. A written examination is required to demonstrate ability to issue a well reasoned decision. An oral examination before a three member panel which includes a representative of the American Bar Association and a presiding Administrative Law Judge are further steps in this complex competitive process.

In N.L.R.B. v. Permanent Label Corporation, 657 F.2d 512, 527-28, concurring opinion, Judge Aldisert concluded that "the selection process for Administrative Law Judges should inspire respect for this office than is generally extended by Article III judges. It is a process that requires rigorous inquiries into the background and competence of the candidates."

TOTAL NUMBER OF ALJS ON BOARD BY GRADE AND AGENCY
as of April 21, 1989

Breakdown by grade:

GS-15: 711
GS-16: 314
GS-17: 12
GS-18: 3
1,038

Breakdown by agency:[*]

	GS-15	GS-16	GS-17	GS-18
Agriculture Department		4	1	
Commerce Department	1	1		
Commodity Futures Trading Commission		4		
Education Department		2		
Environmental Protection Agency		6	1	
Federal Communications Commission		9	1	
Federal Energy Regulatory Commission		20		1
Federal Labor Relations Authority		8	1	
Federal Maritime Commission		3		
Federal Mine Safety and Health Review Commission		8	1	
Federal Trade Commission		3		
Health and Human Services Department				
Food and Drug Administration		1		
Departmental Grant Appeals Board	1			
Social Security Administration	700			1
Housing and Urban Development Department		3		
Interior Department		6	1	
Interstate Commerce Commission		3		
Justice Department				
Drug Enforcement Administration		2		
Immigration Review		3		
Labor Department		100	1	1
Merit Systems Protection Board		1		
National Labor Relations Board		89	1	
National Transportation Safety Board		5		
Nuclear Regulatory Commission		2		
Occupational Safety and Health Review Commission		17	1	
Securities and Exchange Commission		3	1	
Transportation Department				
Office of the Secretary		3	1	
U.S. Coast Guard	9	1		
U.S. International Trade Commission		3	1	
U.S. Postal Service		2		
	711	312	12	3

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[*] Agency identification reflects permanent assignments, and omits loans, reemployed ALJs, and unoccupied slots.

Table 1

Law Practice Incomes of Partners According to Population

Size of City	Median Income	Average Income
250,000 to 999,999	$ 87,500	$ 154,000
Over 1,000,000	148,500	171,700

Note: According to the American Bar Association, many judges serve in populous areas, many are selected from the larger law firms, and the only way to attract and retain these judges is for their judicial salaries to be comparable to what could be earned in private practice. (ABA Handbook on State Judicial Salaries, June 1986)(April 1985 survey)

Table 2

Law Practice Incomes of Partners According to Size of Law Firm

Size of Law Firm	Median Income	Average Income
3-10	$ 64,600	$ 102,200
11 or more	129,200	162,400

(Source: ABA Handbook on State Judicial Salaries, June 1986) (April 1985 survey)

Table 3

1988 Average Starting Attorney Salaries 1/

	1988
Atlanta	$52,500
Boston	54,125
Chicago	62,618
Ft Worth/ Dallas	56,833
Houston	56,000
Los Angeles	60,923
New York City	72,842
Philadelphia	57,993
San Francisco	53,909
Washington, DC	59,000

NOTE: $72,500 WAS THE MAXIMUM SALARY FOR AN ALJ FROM 1/87 TO DATE WHO, ON AVERAGE, HAD MORE THAN 20 YEARS OF SPECIALIZED LAW EXPERIENCE.

1/The National Law Journal, The Nation's Largest 250 Law Firms, September 26, 1988.

Table 4

Law Partners Incomes -1985 1/			1988 Starting Attorney Salaries 2/
	Average Income Of Partners In Law Firms (Non-Patent)	Highest Income Of Partners in Law Firms (Non-Patent)	
Atlanta	$130,000	$250,000	$51,300
Boston	110,000	135,000	53,200
Chicago	140,000	270,000	57,600
Cinncinnati /Dayton	195,000	300,000	
Cleveland	165,000	290,000	
Dallas/Ft Worth	180,000	260,000	51,100
Denver	110,000	190,000	
Detroit	100,000	135,000	
Houston	200,000	350,000	50,000
Kansas City/ St Louis	155,000	280,000	
Los Angeles	145,000	210,000	52,700
Milwaukee	99,000	200,000	
Minneapolis/ St Paul	130,000	210,000	
New York City	220,000	390,000	65,600
Philadelphia	195,000	300,000	52,400
Pittsburgh	130,000	225,000	
San Francisco	87,000	250,000	50,000
Washington DC	190,000	250,000	57,600

Note: $72,500 WAS THE MAXIMUM SALARY FOR AN ALJ FOR 1987-TO DATE

1/The Student Lawyer, American Bar Association,November 1985

2/The National Law Journal, Tenth Annual Survey of the Nations Largest Law Firms, September 28, 1987

TABLE 5

Law Partners Incomes 1/

Average Income of Partners (Non-Patent) In Law Firms

City	1986	1987	Change % 2/
Atlanta	135,000	145,000	+ 7%
Boston	125,000	150,000	20%
Chicago	150,000	165,000	10%
Cincinnati/ Dayton	180,000	183,000	2%
Cleveland	160,000	165,000	14%
Dallas/ Ft Worth	170,000	180,000	6%
Denver	125,000	135,000	8%
Detroit	110,000	130,000	18%
Houston	210,000	215,000	2%
Kansas City/ St Louis	160,000	167,000	4%
Los Angeles	150,000	179,000	19%
Milwaukee	100,000	170,000	70%
Minneapolis/ St Paul	129,000	130,000	1%
New York City	240,000	265,000	10%
Philadelphia	190,000	210,000	11%
Pittsburgh	125,000	140,000	12%
San Francisco	92,000	110,000	20%
Washington, DC	175,000	180,000	3%

1/ The 1987 Annual Attorney Salary Survey, David J. White & Associates, Inc. The survey results were compiled from questionnaires sent to over 8,000 law firms and are based on data collected from March to May 1987. In every instance the lowest range of partner income (the survey includes high, low, and average ranges of income) exceeded the $72,500 maximum salary for Administrative Law Judges fixed by Congress in February 1987.

2/$72,500, the maximum salary for an ALJ for 1987-to date, increased 2% over the 1986 maximum salary of $70,800.

TABLE 5A

1987 Law Firm Salaries 1/

City	8 years	Partner
Atlanta	$69,500	$145,000
Boston	$69,000	$150,000
Chicago	$60,000	$165,000
Cincinnatti/ Dayton	$59,000	$183,000
Cleveland	$65,000	$165,000
Dallas/Ft. Worth	$70,000	$180,000
Denver	$65,000	$135,000
Detroit	$65,000	$130,000
District of Columbia	$73,000	$180,000
Houston	$70,000	$215,000
Kansas City/ St. Louis	$59,500	$167,000
Los Angeles	$70,000	$179,000
Milwaukee	$64,500	$170,000
Minneapolis/St. Paul	$55,000	$130,000
New York City	$78,000	$265,000
Philadelphia	$60,000	$210,000
Pittsburgh	$64,000	$140,000
San Francisco	$62,000	$110,000

1/ The 1987 Annual Attorney Survey, David J. White & Associates, Inc. In every instance the lowest range of partner income (the survey includes high, low, and averge ranges of income) exceeded the $72,500 maximum salary for Administrative Law Judges fixed by Congress in February 1987.

TABLE 6

Corporate Associate General Counsels and General Counsels Average Income - 1987 1/

City	Assoc. G.C.	Change % 1987 over 1986	G.C.	Change % 1987 over 1986
Atlanta	$100,000	+ 1%	$135,000	+ 4%
Boston	73,000	7%	125,000	32%
Chicago	145,000	50%	190,000	38%
Cincinnati/ Dayton	78,000	11%	135,000	11%
Cleveland	105,000	5%	175,000	13%
Dallas/ Ft Worth	110,000	16%	170,000	10%
Denver	90,000	20%	125,000	4%
Detroit	89,000	11%	145,000	12%
Houston	97,000	2%	172,000	2%
Kansas City/ St. Louis	78,000	9%	140,000	

1/ The 1987 Annual Attorney Salary Survey, David J. White & Associates, Inc.

TABLE 7

Comparison of average annual salaries in private industry with salary rates of Federal employees under the General Schedule, March 1987 1/

Occupation and level surveyed by BLS
(Attorneys VI)

Salary rates for Federal employees under the General Schedule

Grade	Average*	Step				
		1	2	3	4	5
GS 15 2/	$63,725	53,830	55,624	57,418	59,212	61,006
		6	7	8	9	10
		62,800	64,594	66,388	68,182	69,976

Average Annual Salary in Private Industry

$105,000

*/ Mean salary of all General Schedule employees in each grade as of March 31, 1987. Not limited to Federal employees in occupations surveyed by BLS.

1/ Source: Table D-1, National Survey of Professional, Administrative, Technical, and Clerical Pay: Private Service Industries, March 1987 (Bulletin 2290), U.S. Department of Labor, Bureau of Labor Statistics, December 1987.

2/ This survey did not make any comparison between average salaries in private industry and GS 16 attorneys whose salaries ranged from $64,397 (GS 16/Step 1) to $72,500 (GS 16/Steps 5 through 10). GS 16 attorneys consisted mostly of 300 ALJs whose salaries were capped at $72,500 effective 02/87.

TABLE 8

All Corporate Employers 1/

	1986 Median Compensation	1986 Average Salary	1986 Total Compensation
Managing Attorney	$92,085	$85,730	$96,309
Non-supervisory Attorney	$57,309	$57,419	$60,882

1/ Altman & Weil, Inc., The Guide to Lawyers Compensation, the 1987 (October 1986) Survey of Law Department Salaries, pps. 1, 2, and 6.

OFFICE OF ADMINISTRATIVE LAW JUDGES
U.S. OFFICE OF PERSONNEL MANAGEMENT

Administrative Law Judge Retirement Eligibility Data As Of 9/30/88

	Number	Percentage
Ineligible for Either Early or Voluntary Retirement	483	46.1%
Eligible for Early Retirement at Age 50 with 20 years of service, or at any age with 25 years	140	13.4%
Eligible for Voluntary Retirement, age 55 with 30 years of service, age 60 with 20 years of service, or age 62 with 5 years of service	425	40.5%
Total Number Judges	1,048	100.0%

02/15/89 REPORT C - AVERAGE AGE AND LOS FOR ADMINISTRATIVE LAW JUDGES BY AGENCY, 9/30/88 PAGE 1

	TOTAL	MEN	WOMEN	MIN.	AV.AGE MEN	AV.AGE WOMEN	AV.AGE MIN.	AV.LOS MEN	AV.LOS WOMEN	AV.LOS MIN.
AG Agriculture	4	3	1		54.6	61.0		25.0	30.0	
AU [illegible]	8	8		1	59.1		52.0	31.6		31.0
BD MSPB	1	1			61.0			41.0		
CM Commerce	2	2			58.5			28.5		
CT [illegible]	4	4			56.2			27.2		
DJ Justice	4	3	1		56.0	41.0		22.6	16.0	
DL Labor	94	91	3	2	56.6	51.3	58.0	22.0	19.6	28.0
DN FERC	22	22			59.2			27.5		
EP EPA	7	6	1		61.1	51.0		27.8	25.0	
FC FCC	10	10		2	56.7		50.0	27.6		23.5
FT FTC	4	4		1	59.0		66.0	23.0		33.0
HE HHS	729	705	24	47	57.0	55.1	57.7	16.7	15.0	16.6
HU HUD	1	1			45.0			17.0		
IC ICC	3	3			62.6			40.3		
IN Interior	6 ~~14~~	6 [redacted]	[redacted]	[redacted]	55.6	[redacted]	[redacted]	23.9	[redacted]	[redacted]
MC Maritime	3	3			63.5			36.0		
NL NLRB	89	84	5	3	55.2	53.2	60.0	25.3	23.0	28.0
NU NRC	2	2			57.5			39.0		
OS OSHRC	17	17		1	61.2		61.0	26.1		22.0
RS Postal	10	10			56.0			32.9		
SE SEC	4	3	1		56.0	49.0		34.3	20.0	
TB NTSB	6	5	1	1	60.6	57.0	66.0	21.6	19.0	30.0
TC ITC	4	3	1		57.6	61.0		21.0	34.0	
TD Transportation	14	13	1		60.9	43.0		26.9	15.0	
ALL	1,048	1,007 [redacted]	39 ~~40~~	58 [redacted]	57.1	53.5	[redacted]	19.2	17.4	18.7

01/31/89 REPORT H - ADMINISTRATIVE LAW JUDGES BY SELECTED AGE GROUPS WITHIN AGENCIES, 9/30/88 PAGE 1

SELCTED AGE GROUPINGS

	TOTAL	<55	55-59	60-61	62-64	65-69	70-74	75-79	GE 80
AG Agriculture	4	2	1	1					
AU FLRA	8	3	1	2		1	1		
BD MSPB	1			1					
CM Commerce	2		1	1					
CT CPSC	4	2	1	1					
DJ Justice	4	2	1	1					
DL Labor	94	39	24	4	6	15	5	1	
DN FERC	22	9	4		3	2	3	1	
EP EPA	7	2	1	1	1	2			
FC FCC	10	4	3	1	1		1		
FT FTC	4		3			1			
HE HHS	729	278	147	61	95	84	50	9	5
HU HUD	1	1							
IC ICC	3		1		1	1			
IN Interior	6 ~~[illegible]~~	~~[illegible]~~ 2	~~[illegible]~~ 2		~~1~~ 0	2			
MC Maritime	3		1		1		1		
NL NLRB	89 ~~[illegible]~~	41	27	6	7	6	1	1	1
NU NRC	2		1	1					
OS OSHRC	17	2	6	2	2	1	2	2	
RS FMSHRC	10	4	3		2	1			
SE SEC	4	1			1	1	1		
TB NTSB	6		3	1	1	1			
TC ETC	4		3	1					
TD Transportation	14	5	1		3	3	2		
ALL	~~[illegible]~~ 1,048	~~400~~ 397	~~[illegible]~~ 236	85	~~[illegible]~~ 124	121	67	14	6

01/31/89 REPORT M - ADMINISTRATIVE LAW JUDGES BY SELECTED LOS GROUPS WITHIN AGENCIES, 9/30/88 PAGE 1

SELECTED LENGTH(YEARS) OF SERVICE GROUPINGS

	TOTAL	<5	5-9	10-14	15-19	20-24	25-29	30-34	35-39	>40
AG	4					1	2	1		
AU	8				1		1	4	1	1
BD	1									1
CN	2					1			1	
CT	4					1	2	1		
DJ	4				2	1	1			
DL	94	1	5	16	20	12	17	18	5	
DN	22				3	4	9	3	1	2
EP	7				1	1	2	1	2	
FC	10				2	2	2	1	2	1
FT	4	1					1	2		
HE	729	67	90	134	198	103	72	43	17	5
HU	1				1					
IC	3							1		2
IN	6 ~~[illegible]~~			~~[illegible]~~ 2	~~[illegible]~~ 2	~~[illegible]~~ 0	~~[illegible]~~ 0		2	
MC	3						1		1	1
NL	89 ~~[illegible]~~		2	5	11	21	23	21	4	2
NU	2						1	1		
OS	17	1			1	5	3	6	1	
RS	10	1			3	1	1	3	1	
SE	4					1	1	1		1
TB	6	1			2			3		
TC	4		1			1		2		
TD	14			1	3	4	1	2	2	1
ALL	~~[illegible]~~	72	98	~~[illegible]~~	~~[illegible]~~	~~[illegible]~~	~~[illegible]~~	114	40	17
	1048			158	250	159	140			

REPORT Q - ADMINISTRATIVE LAW JUDGES BY YEARS OF SERVICE, 9/30/88

	TOTAL
00 YOS	18
01 YOS	8
02 YOS	16
03 YOS	18
04 YOS	12
05 YOS	4
06 YOS	32
07 YOS	13
08 YOS	30
09 YOS	19
10 YOS	~~29~~ 28
11 YOS	~~32~~ 31
12 YOS	23
13 YOS	37
14 YOS	39
15 YOS	38
16 YOS	54
17 YOS	54
18 YOS	66
19 YOS	39
20 YOS	39
21 YOS	~~39~~ 38
22 YOS	27
23 YOS	36
24 YOS	~~40~~ 19
25 YOS	22
26 YOS	25
27 YOS	26
28 YOS	~~30~~ 28
29 YOS	40
30 YOS	36
31 YOS	26
32 YOS	24
33 YOS	15
34 YOS	13
35 YOS	15
36 YOS	6
37 YOS	8
38 YOS	6
39 YOS	3
40 YOS	3
41 YOS	1
43 YOS	2
44 YOS	2
45 YOS	2
46 YOS	2
47 YOS	1
48 YOS	4
ALL	~~1,054~~ 1,048

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS

ALFRED K. WHITEHEAD
President

VINCENT J. BOLLON
Secretary-Treasurer

TESTIMONY
BEFORE THE
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS
ON
S. 2274
THE FEDERAL PAY COMPARABILITY ACT OF 1990

MARCH 22, 1990

BY

FREDERICK H. NESBITT
DIRECTOR OF GOVERNMENTAL AFFAIRS

1750 NEW YORK AVENUE, N.W., WASHINGTON, D.C. 20006-5395 • (202) 737-8484 • FAX (202) 737-8418

Mr. Chairman, my name is Frederick Nesbitt, I am the Director of Governmental Affairs for the International Association of Fire Fighters (IAFF). At the outset, I wish to thank you for this opportunity to present the views of the nation's professional fire fighters on the important subject of pay reform for federal workers.

I also wish to commend you, Mr. Chairman, for your diligent and exemplary efforts in this area. Your proposal to correct some of the severe deficiencies in the federal pay system is an commendable step and is deeply appreciated by our nation's federal fire fighters. We are particulary pleased that you have incorporated the concept of locality pay into your proposal. The IAFF is on record in support of locality pay as a result of a 1988 convention resolution calling for enactment of legislation to "compensate federal fire fighters based on the prevailing rate of pay and benefits received by their municipal and state counterparts in the same geographical area."

The intent of this legislation, as we understand it, is to address the inability of the federal government to recruit and retain federal workers in selected areas of the country. This problem is expecially acute in the case of the federal fire service which has proven unable to maintain adequate staffing levels, and is losing fire fighters to state and municipal fire departments at an alarming rate. Estimates of annual turnover run as high as 50%. In many areas of the country, the federal fire service is now viewed as little more than a training ground for state and local fire departments.

Correcting pay inequities between the federal and non-federal sectors, as provided for under S. 2274, is the obvious response to recruitment and retention problems. However, there are certain instances in which pay is not the only factor making federal service undesirable. Legislation to correct recruitment and retention problems will only achieve the desired effect if it addresses the cause of those problems. Consequently, we strongly urge the Committee to carefully examine the factors which affect federal employment, and take those steps which are most likely to have a beneficial result.

In the case of federal fire fighters, pay is actually a secondary consideration. The primary reason fire fighters leave the federal civil service system is to escape the oppressive 72 hour work week. This onerous work schedule compares to the non-federal sector in which fire fighters work on average 48-53 hours per week. Moreover, fire fighters who work for state and local governments earn more money even while working far less hours than federal fire fighters.

Although a pay differential exists between federal and non-federal fire fighters, it is the hours that make federal service so unattractive. That is the message we hear from our federal members, and that is also what has been demonstrated in practice.

The Washington Airport authority recently reduced the work week of its fire fighters from 72 down to 56 hours per week with no loss in pay. In so doing, the Authority lowered the turnover rate from 30% to 5% per year, and reduced abuse of leave, disciplinary action and complaints regarding payroll problems by more than 75%. Simultaneously, the Authority experienced a 400% increase in the number of applicants. We believe similar results would be achieved in the federal government by elimination of the archaic 72 hour work week.

As currently drafted, S. 2274 makes no provision for disparate hours between the federal and non-federal sector. Indeed, it is unclear how the Federal Pay Council established by S.2274 could even compare the pay scales of the two sectors or what actions it would be empowered to take to address discrepancies.

For example, assume that the Federal Pay Council finds that municipal fire fighters in a designated locality earn $35,000 per year and work 50 hours per week, while federal fire fighters in the same area earn $30,000 annually and work 72 hours each week. Would the Federal Pay Council simply consider the $5,000 salary differential, and ignore the shorter work week of the municipal fire fighters? Would the Council seek to address the hours issue by translating the annual salary into a per hour rate, which would mean that federal fire fighters would be entitled to a salary hike in excess of $20,000, rather than $5,000? Surely, the authors of S.2274 did not envision salary increases on this magnitude, yet it would be irresponsible to completely ignore the differential in the work week hours. It is unfair and counterproductive to say that a person making $35,000 working 50 hours per week is identical to someone earning $35,000 working 72 hours per week.

Clearly, the 72 hour work week must be significantly reduced if the recruitment and retention problems in the federal fire service are to be addressed. But recruitment and retention are not the only reasons that this practice of working people 72 hours per week must be halted. Indeed, there are far more compelling reasons.

The primary reason to take this necessary step is simply that a 72 hour work week is unhealthy and unsafe. Federal fire fighters are prevented from enjoying any semblence of a normal life, and there is a serious question as to whether anyone can operate safely working a schedule of this nature.

To fully comprehend the magnitude of this point, we must recall the nature of the occupation in question. Fire fighters face life threatening and life saving situations as a matter of course. The need to operate at peak efficiency is not simply a question of productivity, it is a matter of life and death. In the case of federal fire fighters, the matter is especially crucial. The vast majority of federal fire fighters work for one of two agencies: the Department of Defense and the Department of Veterans Affairs. Fire fighters employed by DOD protect sensitive military bases, some of which house sophisticated, dangerous weaponary. VA fire fighters are assigned to veterans hospitals which are populated by mobility-impaired heros of America's wars.

In either of these places, a major fire could prove devastating, and it is imperative that all fire fighters present are in peak condition. It would be unforgivable if a disaster occured at a VA facility or military installation because the fire fighters were operating at less than optimum effectiveness.

The question before this Committee is not whether the 72 hour work week of federal fire fighters should be reduced, but rather how this can be accomplished without imposing a corresponding reduction in pay. We see two viable legislative approaches to problem.

The first approach is to create a special pay schedule for fire fighters which would reduce work hours while maintaining current pay levels. Together with the International Association of Fire Chiefs, the National Federation of Federal Employees and the National Association of Government Employees, we have endorsed a legislative proposal which utilizes this approach. S.2270 introduced by Senator Joseph Lieberman (D-CT) reduces the work week of federal fire fighters down to 60 hours with no reduction in annual salary.

Removing fire fighters from the General Schedule and creating a separate, distinct pay schedule would allow the federal government to acknowlede the unique nature of fire service employment, special training skills and the hazardous nature of the job, as state and local governments presently do.

If this approach is deemed preferable, we would encourage Members of the Committee on Governmental Affairs to move S.2270 in tandem with S.2274 or incorporate the major provisions of S.2270 directly into S.2274.

The other possible legislative remedy to the problem of the 72 hour work week is to expand the authority of the Federal Pay Council proposed in S.2274 to include non-pecuniary issues. Allowing the Council to address the various factors which cause recruitment and retention problems would increase the likilihood that the Council will suceed at establishing a more stable, experienced and qualified federal work force.

This latter approach to the problem is more consistent with the general pay reform strategies under consideration in both houses of

Congress, and is attractive from a management efficiency point of view. If Congress is going to take the significant step of creating an entire bureaucracy to address recruitment and retention problems, it only makes sense to empower that agency with sufficiently broad authority to do the job effectively.

Of the two approaches, the IAFF strongly prefers the former. The creation of a separate pay scale for federal fire fighters is a simple and effective way to reduce the 72 hour work week. Moreover, the hour reduction could take effect promptly, and would not need to go through the lengthy evaluation process to which the Federal Pay Council will undoubtedly subject all recommended changes.

If, however, the Committee feels that a separate pay schedule should not be established at this time, then we strongly urge expanding the jurisdiction of the proposed Federal Pay Council to include other employment-related issues.

The primary concern of the IAFF is not which approach is taken, but rather that Congress address, in some meaningful fashion, the unacceptably long hours currently worked by our nation's federal fire fighters.

In conclusion Mr. Chairman, I wish reiterate my appreciation to you for your extraordinary efforts on the issue of civil service pay reform. We look forward to working with and your excellent staff in the coming months as Congress strives to re-establish the federal service as an employer second to none in attracting the nation's most capable, dedicated workers.

Once again, thank you for this opportunity to address this most serious issue. I would be happy to answer any questions you may have.

New York Federal Executive Board

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26 Federal Plaza
New York, NY 10278

March 20, 1990

The Honorable John Glenn
Chairman
Senate Governmental Affairs Committee
Room 340 Dirksen Senate Office Building
Washington, DC 20510-6250

Dear Mr. Chairman:

We welcome the opportunity to provide information about the Federal employment crisis in the New York City area to the Senate Committee on Governmental Affairs. The enclosed comments supplement the information contained in the New York FEB reports, "New York's 'Not So Quiet' Federal Employment Crisis," (April 1988) and "New York City, Nassau/Suffolk Counties Special Salary Rate Request," (October 1988). These reports were submitted to the Committee under separate cover.

We appreciate the efforts of the Congress in seeking to remove the constraints which impede the delivery of quality Federal programs and services to the citizens of the major metropolitan areas.

Please do not hesitate to contact us if the Committee needs further information.

Sincerely yours,

James J. Farsetta

James J. Farsetta
Chairman

TESTIMONY OF THE NEW YORK FEDERAL EXECUTIVE BOARD BEFORE THE SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS: THE NEW YORK FEDERAL EMPLOYMENT CRISIS

MARCH, 1990

Federal agencies in New York are enduring a staffing situation of crisis proportions. In 1987, a variety of economic and social factors finally combined to push the Federal community into immediate action to preserve the integrity of the Federal workforce in New York. A complete analysis of the problem is detailed in the New York Federal Executive Board report entitled "New York's 'Not-So-Quiet' Federal Employment Crisis" which was submitted to the Committee under separate cover. In summary, the report highlights:

- The Pay Gap - the Federal government in New York is operating in an extremely competitive local labor market at a significant salary disadvantage. This results in extraordinary difficulties in attracting and retaining qualified staff in all categories of positions.

- The Cost of Living Problem - The federal paycheck buys a significantly lowered standard of living in New York City than elsewhere. In fact, a federal employee in New York has no discretionary income, the only such city in the country (Economic Research Institute, February 1987).

- Quality of Candidates - Agency officials report the inability of a large number of candidates to pass OPM examinations and agency training programs.

- Recruiting and Staffing - Critical staffing shortages are apparent in most disciplines and grade levels. Potential employees turn away because of the low starting salaries. High attrition rates exist as current employees seek and find more lucrative opportunities in the private and local governmental markets.

- Impact on Services - Agencies have cited examples of productivity losses, increased administrative costs and a growing decline in the level of service to the public.

In 1988, the NYFEB undertook a complete analysis of these recruitment and retention problems in an effort to secure special salary rates through the Office of Personnel Management.

In gathering the required data, the recruitment and retention problems cited by NY agency managers were quantified. The overall picture presented was bleak and the problems systemic, as outlined in the special salary rate request dated October, 1988. The NY FEB analyzed vacancy rates in 120 series representing 21,331 jobs in New York during the period July 1, 1987 - June 30, 1988. The complete analysis, entitled "NYC Nassau/ Suffolk Counties Special Salary Rate Request", was also submitted to the Committee under separate cover.

In summary, the report highlights:

- A full one-third of all positions were vacant at one time or another during the study period.

- The losses for jobs at the three professional entry levels were a staggering 50%, 52% and 27%. Even at the journey and supervisory levels there were loss rates doubling and tripling the national federal average.

- New York lost 723 technicians during the study period - one in five; 45% of those losses were quits for pay. We were able to fill only 40% of the positions we tried to fill.

- Over 50% of all clerical positions studied were vacant during the year. In 1988 the New York pass rate for the OPM clerical test was 28%. The national average was 76%. OPM has since discontinued the use of this examination in New York City because of its failure to provide viable candidates.

In the "Administrative" series, 28% of jobs were vacant during the year and fewer than two-thirds of these vacancies were filled. There was a 27% loss rate at entry level where training dollars are traditionally spent.

- In the series surveyed under the "Other" category, Correctional Officer, New York had a 136% loss rate; 79% of the total population quit for reasons of pay.

Because agencies must fund special salary rates from existing budgets, such special rates are not the solution. It is extremely difficult to secure approval from many agency headquarters despite convincing staffing data. The New York FEB proposal for an across the-board special rate was therefore a fiscal impossibility.

There is no evidence to indicate that the problems identified in the two NYFEB reports are lessening. As of March 1990, the crisis remains. Following are some updated examples of the difficulties of competing in the highly competitive New York labor market.

Internal Revenue Service

Thirty-three percent of all new hires in the IRS Manhattan District in FY'89 had resigned, transferred, or were separated by the end of the fiscal year. In the IRS Brooklyn District, 36% of FY'89 new hires left by the end of the year. In both offices, Manhattan and Brooklyn, the majority resigned. In 1988, 32% of all Criminal Investigator slots in the IRS Manhattan District were vacant at some time during the year.

In FY 1988, a GS-5 recruit agent was responsible for $135,111 per year in adjustments to taxable income. In contrast, a fully trained GS-12 agent produced $2.3 million in adjustments, and a GS-13 agent $6.3 million. Specialty agents (large and/or international cases) yielded $7.5 - $10.9 million per year in adjustments. The loss of recruit agents before they can reach the full working level has a direct impact on losses in tax revenues. In addition, the constant training of new recruits not only adds significantly to the agency's costs but also requires that seasoned agents take time from high-level tax examination work to serve as on-the-job instructors.

Social Security Administration

The 1988 external recruitment efforts for Claims Representatives Trainees (CRT) in the New York City, Long Island and Northern New Jersey area, like those of 1987, produced dismal results. In 1988, a total of 150 names appeared on OPM registers and 143 persons were contacted. Of these, 24 failed to respond, 29 failed the panel interview, and 42 were not interested in the position because of the pay and/or grade structure. Thus, only 48 names were left from which to select the CRT candidates.

Thirty-eight (38) persons were selected and 32 entered-on-duty in one of three training classes held in the summer of 1988. Only 20 of the 32 were outside hires; the balance were either SSA employees (10) or employees of other federal agencies (2). Only 21 of the 32 remained in SSA's employ a year later; all 11 who left were from the outside hire group. Therefore, from the recruitment pool of 138 external applicants (150 less the 12 federal employees) that SSA began screening in April 1988, only 9 remained on duty.

The level of education of the candidates on the OPM registers is an indication of the problem attracting recent college graduates to the CRT position. Of the 32 who entered on duty in the summer of 1988, nine possess a college degree and only 2 had earned their degree within the past five years.

The salaries for GS-5 and GS-7 CRT's are not competitive with salaries for college graduates in the non-federal public sectors in the New York

Metropolitan area, where salaries are as much as $6,000 higher for comparable entry-level administrative/professional positions. This situation has necessarily resulted in a lowering of hiring standards.

This lack of high-quality CRT recruits ultimately results in delays and errors in processing Social Security benefit claims and the inability to provide adequate service to the public.

Federal Aviation Administration

FAA's increasing use of contract workers in accordance with OMB Circular A-76 highlights federal/private salary disparities in New York City. Contracts are negotiated according to the prevailing market rate. For example, in one of FAA's accounting functions where contract workers are replacing GS-6 government employees, the contract now costs an average of $10,000 more per worker than it would cost for a government employee, i.e., approximately 25%.

A national contractor for Procurement & Real Estate Specialists cannot find sufficient people to fill the position at the GS-12 equivalent salary in metropolitan New York. Those who do relocate to metropolitan New York quickly leave because of the inadequate salaries. The contractor asked FAA to raise the salary level of the contract in New York but FAA declined, citing potential morale problems among their employees, who would continue to be paid at the GS-12 level.

The major impact FAA sees is the quality of new hires in all occupational areas. The best do not want to come to the government, thus forcing the agency to settle for those who may not be able to be hired by the private sector.

Army Corp of Engineers

Approximately one third of the New York District's employees are engineers and scientists. Within the District's New York offices, the turnover rate last year among Civil Engineers was 46%, Architects 36%, Electrical Engineers 30% and Mechanical Engineers an incredible 50%.

The retention problem has been as severe and frequently more crippling in other occupational areas. Over the past four years Realty Specialists have averaged an annual turnover rate of 45%, Accountants 37.5%, Personnal Specialists 114%, Economists 60%, Computer Programmers 60%, Accounting Technicians 183%, Management Analysts 134% and Budget Analysts 57%.

As a result, there is little "institutional memory" among the journey and supervisory level staff. In the past four years, there have been four Chiefs of Real Estate, five Comptrollers, seven Personnel Officers, three Chiefs of Planning, and at least two chiefs of most of the other offices. Over half of the Branch and Section Chiefs working in the District's New York headquarters have been in their present positions for less than two years. Among journey level people, the Corps witnessed the highest turnover in the history of the New York District during this period.

The District's inability to recruit and retain employees, professional and non-professional, has severely affected its ability to effectively execute is civil works and military missions. For example:

- Without exception, the critical design efforts associated with flood and hurricane protection projects are experiencing unavoidable and unacceptable delays.

- The ability to adequately fulfill the "Partnership" concept of the Water Resources Development Act of 1986 is being severely strained.

- The ability to react promptly and effectively during natural disasters and emergencies is seriously endangered due to the lack of inexperienced staff.

- The District's ability to design and construct safe, functional, and economical military projects has been seriously affected by the lack of adequate and experienced staff.

- The District has practically eliminated the design and construction of most military projects valued under $500,000.

- The District was not able to meet its FY 89 goal of 25% inhouse design for military construction. The actual production for this construction program was 6.5%, and the additional work was contracted out at a cost of approximately 40% more.

- The New England Division had to take over all design and construction management of Army and Air Force bases in Massachusetts (with the exception of Hanscom AFB) from the New York District.

- The District is facing increased expenditures because of the need for redesign and corrective construction of defective facilities.

Federal Bureau of Investigation

As the examples above demonstrate, the staffing situation continues to hamper the efficient delivery of quality services to the public in the New York area. Since October 1, 1988, one agency, the FBI, has been accorded relief in the form of a demonstration pay project for New York City. This project included, among other factors, a locality pay differential of 25% for agents and certain other critical personnel.

Prior to the locality pay project, the overall annual attrition rate had been 43% for calendar year 1988. During calendar year 1989, with the project fully on line, the attrition rate had declined to 18%. From the time the pay project was initiated, the number of employees resigning has dropped from an average of 6.3 employees per month to 3 employees per month. The expansion of the project to include all FBI employees in late 1989 is expected to reduce attrition further.

* * * * *

Two years have passed since we first detailed New York's "Not So Quiet" crisis...and the crisis continues unabated. We welcome the interest of the Congress in seeking a remedy to this problem that now affects so many crucial federal programs.

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Pay For Federal Employees: Reexamining the General Schedule

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PAY FOR FEDERAL EMPLOYEES: REEXAMINING THE GENERAL SCHEDULE

INTRODUCTION

The General Schedule is the pay system for Federal civilian white-collar workers. As such, it governs the establishment and adjustment of salaries for a workforce which numbers some 1.3 million employees representing professional, administrative, technical, and clerical occupations. The structure itself can be visualized as a grid comprised of 18 grades, on the vertical axis, each divided into a number of steps, on the horizontal axis. The first fifteen grades have ten steps each. Grades 16, 17, and 18 include nine, five, and one step(s), respectively. Within each grade is a range of pay comprised of a minimum, midpoint, and maximum salary.

A technique called position classification has been used to craft the structure. Federal jobs have been arranged into classes on the basis of the kind of work involved, its level of difficulty, responsibility, and the qualifications necessary to perform it. Rates of pay were then attached to each specific class. By law, the schedule is to be adjusted on an annual basis to ensure comparability of its pay rates with those in the private sector.

The pay structure is a job hierarchy. As one progresses through it, salaries increase. Positions at the GS-12 level, for instance, are said to demand more in terms of knowledge and skill, responsibility, and expected results than those at the GS-11 level, and therefore, have both a higher classification and rate of pay related to them. Currently, General Schedule salaries range from $10,581 at GS-1 to $86,682 at GS-18.[1] This pay system is uniform and national; a procurement specialist in Boston makes the same salary as someone occupying that position in Cleveland, regardless of any labor market or cost of living differences between the two locales. A special pay rate system (described below), however, may be employed under certain circumstances.

The General Schedule has been in existence for over forty years, receiving its genesis in the Classification Act of 1949. While this statute established a revised pay system, the principles which serve as the underlying foundation for it were articulated in 1920, codified in 1923, and remain unchanged to the present day. It is a tool which is used to manage, motivate, and retain the existing workforce as well as to recruit new employees into the Federal ranks.

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[1] Pay is currently capped at a rate of $78,200.

EMERGENCE OF GENERAL SCHEDULE PAY AS AN ISSUE

Several factors have combined to heighten interest, on the part of some Members of Congress, the Administration, and informed observers, in reexamining the Federal Government's General Schedule pay system. These factors include allegations of a widening gap between public and private sector salaries, a mushrooming special pay rates system, and increased pressure to legislate specific pay schedules for particular groups of Federal workers.

Public Versus Private Sector Pay

In its most recent report, the President's Pay Agent (Secretary of Labor, Directors of OMB and OPM) stated that a gap of 28.6 percent separates pay in the public and private sectors.[2] This finding was affirmed by the Advisory Committee on Federal Pay (three citizens from the private sector).[3] Opinion is not unanimous on the existence of the gap, however. Critics have maintained that a faulty pay survey instrument skews the results. The existence of such a gulf is important because since 1962, the Federal Government has expressed the principle that Federal pay rates should achieve parity with those in the private sector. Congress legislated this ideal in that year when it passed the Federal Salary Reform Act. This wide difference has not just developed of late; rather, it has been growing for more than a decade. Under the authority of the Pay Comparability Act of 1970, the President is charged with adjusting rates of pay for Federal employees to keep Government salaries abreast of those in private industry.[4]

For the first seven years, the statute was carried out pretty much as intended; the recommended comparability adjustment was awarded five times.[5]

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[2] U.S. President's Pay Agent. Comparability of the Federal Statutory Pay Systems With Private Enterprise Pay Rates. Annual Report of the President's Pay Agent. Washington, D.C., The Agent, 1989, p. 1. The Pay Agent acknowledged the existence of a gap, but questioned whether it was as wide as the PATC survey suggested.

[3] U.S. Advisory Committee on Federal Pay. The Gap Became A Canyon. Annual Report by the Advisory Committee on Federal Pay. Washington, D.C., The Advisory Committee, p. 1. Hereafter cited as The Advisory Committee on Federal Pay.

[4] The pay comparability system is discussed in detail below.

[5] In 1972 and 1975 lower adjustments were mandated by the Economic Stabilization Act and an alternative plan, respectively.

The process broke down in 1978, however. In that year, the President's Pay Agent recommended a comparability raise of 8.4 percent. Instead of authorizing this amount, the President issued an alternative plan under which he reduced the increase to 5.5 percent. Each succeeding year has seen a similar result: Presidents Reagan and Bush have consistently submitted alternative plans and lower salary adjustments have been prescribed.

Except for the years 1979 and 1980 when 7.0 and 9.1 percent raises were authorized, the comparability increases have ranged between 2.0 and 4.8 percent. In 1980, no increase was granted. At the same time, the President's Pay Agent has been reporting that Federal salaries are trailing their private sector counterparts by between 10.38 (1979) and 26.28 percent (1989).

Special Pay Rate System

In the Government Employees Incentive Awards Act of 1954, the Civil Service Commission, now the Office of Personnel Management, was authorized to establish higher minimum rates of pay for selected occupations. This statute was enacted as a way to provide more flexibility, than the General Schedule allowed for, to agencies who were experiencing difficulty in recruiting and retaining specialized employees in certain areas. Payment of salaries up to 30 percent higher than the norm is permitted.

Initially, scientists, engineers, medical doctors, and medical technologists represented the occupational categories most predominantly covered by this system. Today, a variety of occupations including clericals and typists in major metropolitan areas, police, pharmacists, nurses, accountants, and auditors are represented among the 190,000 workers it covers. This total is noteworthy because it represents a substantial increase over the number of employees covered by that system in the early years of its existence. In 1978, approximately 11,700 different kinds of jobs were paid according to the Special Pay Rate schedule. By 1985, 47,000 jobs were covered, and this number has risen steadily since. Much of this increase has resulted from the addition of clericals and typists. The magnitude of the increase has raised questions about whether the special pay rate system's purpose has been distorted.

Just as the numbers covered by the system have risen, the costs associated with operating the system have increased dramatically: an estimated $26.5 million was the price tag in 1978; today, it is some $429 million.

These different pay rates were envisioned as a complement to rather than an alternative to the General Schedule. The Office of Personnel Management has characterized the system as "a relief valve program...designed to deal only with the few exceptional cases rather than with broad, underlying pay system problems."[6]

Tailored Legislative Proposals

The inability of Congress and the Administration to reach a consensus on the issue of General Schedule pay has led to a situation in which the various Federal agencies are petitioning Congress to legislate specific pay programs for their particular groups of employees. Representative of this, as well as a current example, is the consideration of a measure in the first session of the 101st Congress (S. 1352) which would have created up to ten personnel management demonstration projects covering some 250,000 employees. Four of the projects were to have been reserved for the Department of Defense and one for the National Aeronautics and Space Administration. Each would have tested a variety of methods for establishing Federal pay, including that of locality pay. Additionally, the legislation proposed to allow the Defense and Energy Departments to identify 525 scientists and engineers who could be paid as much as $134,250 per year. This measure failed to be enacted into law because of a concern that the General Schedule would be further diluted.

Congress has, however, authorized the establishment of seven demonstration projects which are experimenting with such pay setting techniques as pay banding, gainsharing, and recruitment and retention bonuses. These are being conducted by the National Institute of Standards and Technology, McClellan Air Force Base, and the Federal Bureau of Investigation among others.

The Advisory Committee on Federal Pay has cautioned that "failure to act on a comprehensive bill will only create competition within and between agencies, promote job hopping, and disrupt operations."[7]

HISTORY

Developments Prior to 1923

In the early years of the Nation, an employee's pay was based on his job title. The relationship between salary and responsibility of the position was not always consistent, however, and some workers were being paid at a higher rate even though they were performing work of lesser magnitude. The lack of a unified and coherent pay system reached a critical point in the mid

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[6] U.S. Office of Personnel Management. *Supplement Federal White Collar Pay System*. Washington, D.C., The Office of Personnel Management, August 1989, p. 11.

[7] The Advisory Committee On Federal Pay, p. 9.

1850s. Salaries for Federal clerks were widely varying, and these workers continually complained to Congress that their pay should be equal to that of employees who were performing jobs which were similar, if not identical, in terms of duties and responsibilities, but who were being paid at a higher rate.[8]

During 1853 and 1854, Congress responded to this appeal when it passed Federal personnel classification acts.[9] These statutes mandated that agencies group their clerical employees into four classes labeled I, II, III, and IV. Only Washington, D.C.-based clericals were covered by the laws, however, with those in the field service being excluded.

Paul Van Riper, the noted Civil Service historian, writes that these laws "were really nothing but salary standardization acts, providing only incidentally for a minimal duties-classification."[10] Nevertheless, "until the passage of the Classification Act of 1923, 70 years later, they served to define and limit salary levels for clerical positions."[11]

In the intervening years between enactment of the Classification Acts of 1853 and 1854, and the 1923 Classification Act, "position classification and salary administration presented at this time, ... a peculiar combination of administrative discretion and congressional whim."[12] The Committee on Department Methods, which had been appointed by President Theodore Roosevelt to investigate position classification and salary grades, advocated classifying like positions uniformly in different bureaus and departments in a 1905 study.

Twelve years later, no progress having been made in this regard, Congress asked the Bureau of Efficiency to examine private sector pay rates as well as the more general problem of pay and position classification. The Bureau was to report back to Congress one year later, in 1918, but this was never realized.

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[8] Ismar Baruch. *Position Classification in the Public Service.* Chicago: Civil Service Assembly, 1941, pp. 14-15.

[9] 10 Stat. 209; 10 Stat. 276.

[10] Paul Van Riper. *History of the United States Civil Service.* Westport Connecticut, Greenwood Press, 1958, p. 54. Hereafter referred to as Van Riper.

[11] Ismar Baruch. *Position Classification in the Public Service.* Chicago: Civil Service Assembly, 1941, p. 15.

[12] Van Riper, p. 151.

An extensive study of pay and classification was again mandated by Congress in 1919 when it created the Joint Commission on the Reclassification of Salaries. This body found that "equal pay for equal work as a standard for employment [did] not prevail in the U.S. Civil Service."[13] To remedy this circumstance, the Reclassification Commission developed and recommended adoption of a comprehensive classification system which evaluated positions according to duties, qualifications, and responsibilities. The Commission was also responsible for establishing the principle that "the individual characteristics of an employee occupying a position have no bearing on the classification of the position", which was codified in the 1923 Classification Act.[14]

Initially, the Commission report was disregarded. But, upon passage of the Budget and Accounting Act of 1921, which emphasized efficiency in Government operations, the work of the Commission was given a second look. Standardized positions and salaries were seen as playing a large part in calculating accurate statistics on the number of employees and the cost of their pay. Enactment of the Classification Act of 1923 soon followed.

Importance of the 1923 Act

The Classification Act categorized Federal Government positions into five basic services: professional and scientific; subprofessional; clerical, administrative, and fiscal service; custodial; and clerical-mechanical. In addition, the Act divided each of the services into varying numbers of grades, and ranked positions according to the nature of the work, level of difficulty, and degree of responsibility involved. A general description of the type and level of work accompanied each grade. Rates of pay were affixed to the grades.

Most importantly, embodied in the Act was the set of principles first expressed in 1920 by the Congressional Joint Commission on Reclassification of Salaries. Surviving to the present day and representative of the Scientific Management movement's belief that personnel management could be reduced to technique, these principles assert that:

- Positions and not individuals should be classified;

- The duties and responsibilities pertaining to a position constitute the outstanding characteristics which distinguish it from, or mark its similarity to, other positions;

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[13] U.S. Congress. House. Joint Commission on Reclassification of Salaries. *Report*. 66th Congress, 2d Sess., House Doc 686 (Washington: Government Printing Office), 1920.

[14] *Ibid*.

- Qualifications in respect to education, experience, knowledge, and skill necessary for the performance of certain duties are determined by the nature of those duties; therefore, the qualifications for a position are an important factor in the determination of the classification of a position;
- The individual characteristics of an employee occupying a position should have no bearing on the classification of the position;
- Persons holding positions in the same class should be considered equally qualified for any other position in that class.[15]

The Classification Act of 1923 was not, however, extended to all Federal employees. Only executive branch positions based in Washington, D.C. were covered by the Act. Field service jobs were excluded. Mechanical trades and labor positions, paid according to a prevailing rates schedule, were also, in large part, outside of the Act's coverage. A Personnel Classification Board was established by the statute and was given the authority to create the job evaluation system, arrange positions into classes and assign jobs to their respective grades. The Board was charged with maintaining the classification system as well.

Operational Difficulties

The 1923 Act did not completely remedy the deficiencies, lack of pay system unity and coherence, which had led to its passage. Its failure to cover employees in the field service represented a key problem, because at that time, 20 percent of Federal jobs were in the field and that sector was growing rapidly.

This omission was partly addressed five years after passage of the Classification Act. The Welch Act, of 1928 extended the pay scales of the 1923 statute to the field service positions.[16] No authority, however, was provided for the Personnel Classification Board to classify those jobs being performed outside Washington, D.C. At the same time, the Welch Act also directed the Board to conduct a study of how positions were arranged in the field service offices. The Board found that field service classification and salaries was not unified and resembled the way in which jobs were arranged and paid prior to 1923 in Washington, D.C. A comprehensive system encompassing both the Washington, D.C. and field service jobs was recommended. In 1940, the Ramspeck Act extended the Classification Act to field service employees, but World War II prevented any substantial progress in preparing the classifications.[17]

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[15] *Ibid.*

[16] 45 Stat. Ch. 814.

Further, the scope of the 1923 Act did not encompass a number of Federal agencies which were created during the Depression and World War II era. Such agencies as the Home Owners' Loan Corporation, Tennessee Valley Authority, Farm Credit Administration, Farm Security Administration, and the Federal Deposit Insurance Corporation were all setting pay for their workers on an independent basis.

The lack of coverage of the field service as well as the growth of new agencies served to uncover additional problems. These problems included out of date job standards, inadequate updating of old and creation of new job standards, and diminished employee recruitment, retention, and morale.

Adding substance to the perceptions which had developed about the operation of the pay system under the 1923 Act was the Report of the U.S. Commission on Organization of the Executive Branch of the Government, popularly known as the first Hoover Commission of 1949. In its Task Force Report on Federal Personnel, the Commission's Personnel Policy Committee concluded that job evaluation and pay administration in the Federal Government suffered from a number of shortcomings. Especially noteworthy for the present discussion were its findings that: "inequality and inconsistency result from the absence of uniform pay policies for all employees and the organization for the control of pay administration in the Federal Service is incomplete and cumbersome."[18] To remedy these difficulties the Task Force as well as the full Hoover Commission recommended enactment of "a comprehensive pay administration policy for the entire Federal Government."[19]

This call for an integrated pay policy by the Hoover Task Force coupled with the shortcomings in the 1923 law and developments since its enactment, prompted Congress to enact the Classification Act of 1949.

The 1949 Classification Act

The General Schedule pay system was created with passage of the Classification Act of 1949. It is a position classification system comprised of eighteen grades as the introductory section detailed. Broad definitions of each of these grades according to the degree of difficulty and responsibility involved in their performance were written into the law. The 1923 principles -- evaluation of positions is conducted according to the characteristics of the job rather than the individual characteristics and qualifications of the employee who is filling it -- were carried over.

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[17] 54 Stat. Ch. 919.

[18] U.S. Commission on the Organization of the Executive Branch of the Government. *Task Force Report on Federal Personnel* Prepared for the Commission on Organization of the Executive Branch of the Government. Washington, D.C., U.S. Government Printing Office, 1949, pp. 43-58. Hereafter referred to as *Hoover I*.

[19] Ibid.

ANALYSIS

The above discussion identified equal pay for equal work as an important concept underlying the General Schedule. Two additional concepts have been crucial in the continuing development of that structure as well: pay comparability and merit pay. Each of these concepts is an important key to understanding some of these difficulties with the General Schedule.

Equal Pay for Equal Work

As a pay system based on position classification, the General Schedule stresses equal pay for equal work. This concept seeks to ensure that positions which share similar duties, responsibilities, and qualifications are paid uniformly. In the Federal Government, internal equity takes precedence over external competitiveness. Therefore, the General Schedule remains heavily skewed to developing the hierarchy of jobs in the Government through job content rather than labor market factors.

Position classification is accomplished in the Federal system through factor evaluation. Nine factors -- knowledge required by the position, supervisory controls, guidelines, complexity of the job, scope and effect of the work, personal contacts, purpose of contacts, physical demands, and work environment -- are used to evaluate positions and ultimately, to group them into classes. Implementation of the factor evaluation system is an ongoing process.

The position classification technique is susceptible to misuse, however. Many authorities believe that the continued emphasis on the job over the person in grouping like positions into classes in the Federal sector, has resulted in grade creep. By trying to ensure that the classification of the position is not contaminated by the characteristics an individual job candidate brings to the position, the classification system has to be maneuvered if higher pay for an individual is desired. The position is simply upgraded to a higher level. Taken to its greatest extreme, this practice reduces the integrity of the entire classification system.

This focus on making adjustments to the classification system to remedy the problems resulting from the heavy emphasis on job content has distracted attention away from the need to change the pay scales themselves.

Pay Comparability

A second predominant concept is pay comparability. This principle holds that public and private sector salary rates should achieve parity. The Depression in the 1930s and nationwide wage and price controls in the 1940s precluded development of a system for determining pay rate establishment. However, in the period 1959-1960, the Bureau of Labor Statistics began to conduct studies comparing public and private sector pay. Congress became interested in using this data to adjust Federal salaries. Although first expressed in the Federal Salary Reform Act of 1962, the comparability system as we know it today was established through passage of the Pay Comparability Act of 1970.[20]

The following are eight characteristics of the comparability statute:

- Authorizes annual adjustments to Federal white-collar pay, determined by comparing public with private sector wage rates;
- Mandates that an annual National Survey of Professional, Administrative, Technical, and Clerical Pay (PATC) be conducted by the Bureau of Labor Statistics to establish the pay comparison; survey results are submitted to the President's Pay Agent;
- Creates the following three bodies to implement the comparability process:
    - President's Pay Agent -- comprised of the Directors of the Office of Personnel Management and the Office of Management and Budget and the Secretary of Labor; determines the industries to be surveyed, geographic scope, size of establishments to be included, and occupational coverage of the PATC survey; formulates the comparability formula; establishes and confers with the Federal Employees Pay Council; and recommends an annual comparability adjustment to the President;
    - Advisory Committee on Federal Pay -- comprised of three members representing the private sector; provides the President with advice on comparability pay proposals;
    - Federal Employees Pay Council -- comprised of five members of Federal employee organizations which represent substantial numbers of Federal workers; meets with and recommends comparability adjustments to the President's Pay Agent;

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[20] 84 Stat. 1946.

- **Uses a pay-setting formula that weights average rates of pay for each of the jobs included in the PATC survey according to their frequency in the Federal sector; establishes a pay range for each of the four PATC occupational groups -- Professional, Administrative, Technical, and Clerical; merges these four pay ranges into a PATC pay line that is used to derive a weighted private sector pay rate for each General Schedule grade; compares the weighted Federal and private sector averages to compute a comparability adjustment;**

- Empowers the President to decide the size of the comparability adjustment and mandates that he report the findings of his Pay Agent and the Advisory Committee on Federal Pay to Congress;

- Grants the President the authority to override comparability and issue an alternative plan by September 1 for reasons of national emergency or economic conditions; That alternative plan can recommend that no increase be granted, that the comparability adjustment be changed or that the effective date be changed; Congress would have to introduce legislation to override the President;

- Establishes the first pay period on or after October 1 of each year as the effective date of the comparability adjustment; the statute authorized that the first two adjustments under the Act (1971 and 1972) take effect on or after January 1; since 1984, the adjustment has been made in January as well.[21]

Despite the existence of the pay comparability law, critics of the schedule find that it perpetuates a major problem: a lack of sensitivity to local labor market rates. When comparability was mandated, it was believed that, by paying the national average rates applicable to private sector workers the Federal Government would assure that its pay rates were reasonable in comparison to what those employees were making. Forgotten was that "private sector pay rates for the same job and local costs of living vary substantially across the country."[22] Coupled with this deficiency is the failure of the comparability statute to be carried out as intended.

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[21] 5 U.S.C. 5301-5308.

[22] U.S. Congress. House. Committee on Government Operations. Subcommittee on Employment and Housing. *Locality Pay for Federal Employees. Hearings*. Statement of Rosslyn S. Kleeman. Unpublished Transcript, p. 4.

Rather than serving as the means for keeping the General Schedule competitive with private industry, its national average and application has resulted in serious pay disparities between the public and private sectors.

Merit Pay

Constituting a third principle underlying the General Schedule is merit pay. This concept, sometimes referred to as pay for performance, holds that pay adjustments within a particular grade should be made on the basis of how well a particular employee is performing. The current merit pay system for the Federal Government's managers and supervisors in grades 13-15 was authorized in the Civil Service Reform Act of 1978.[23] Like pay comparability, however, this concept can trace its roots back to the Federal Salary Reform Act of 1962. This 1962 law instituted a system which converted within-grade increases from automatic raises to performance based awards. Employees were required to fulfill their duties at an acceptable level of competence to earn within-grade raises. The system came into question when the automatic increases continued.

The merit pay system of today is a performance management and recognition system which predicates pay on performance. As noted, currently, only managers and supervisors in General Schedule grades 13-15 are covered by the plan. Five rating levels with varying degrees of remuneration have been established; these range from outstanding which results in full comparability and merit increases as well as a performance award to unsuccessful which results in no pay increase. Cash awards for superior accomplishment and special service are authorized in addition to the performance awards.[24] All other General Schedule employees are covered by a performance based pay system which requires a rating of at least fully successful for payment of the within-grade increase.

While difficult to quarrel with in theory, linking pay to performance has been troublesome to implement in practice. Such problems, according to the literature on the subject, include a reluctance by Federal managers to appraise performance critically, difficulties in defining the key or critical elements required for performance of the positions, highly inflated ratings, and inadequate funding. Also, the system has sometimes been seen as a way of making up for the pay deficiencies that the comparability system has failed to provide for, as opposed to its stated purpose: rewarding employees for quality performance.

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[23] 92 Stat. 1180-1184.

[24] 5 U.S.C. 5401-5410.

LOCALITY PAY AS A REFORM

The National Commission on the Public Service, popularly known as the Volcker Commission, after its chair Paul Volcker, submitted in 1989 a report to Congress on *Rebuilding the Public Service*. One of the Commission's Task Forces -- Pay and Compensation -- included in its report a recommendation that Congress enact legislation which would change the "process for making comparability adjustments to pay." [25] Rather than basing such adjustments on a "national across-the-board, across-the-nation figure," the Task Force proposed that "comparability be based on the relevant local labor market."[26]

A check of personnel management literature over the last forty years reveals that such a recommendation is not new. Even in 1949, when the General Schedule itself was created, the first Hoover Commission report observed that "no consideration is given to locality differentials in compensating employees other than those in the trade."[27] The Hoover Commission recommended that "rates of compensation for...clerical,...and subprofessional jobs should be fixed and adjusted in relation to prevailing locality, area, or industry pay differentials."[28]

Three additional proposals regarding local pay are also noteworthy.
In 1955, a second Commission on the Organization of the Executive Branch of the Government, known as Hoover II, reported to the Congress. This Commission also argued for a pay schedule which would, in part, be more driven by the local labor market. Underlying this contention was the finding by the Commission that "the pay system generally lacks adequate flexibility in adjusting pay scales to local conditions and to meet shortages in particular vocational or professional skills."[29] This group observed that, "the Classification Act sets uniform national rates, although wage levels and cost of living vary among regions and localities."[30]

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[25] U.S. National Commission on the Public Service. *Leadership for America, Rebuilding the Public Service*. Task Force Reports to the National Commission on the Public Service. Washington, D.C., 1989. p. 203.

[26] *Ibid.*

[27] *Hoover I*, pp. 11-12.

[28] *Ibid.*

[29] U.S. Commission on Organization of the Executive Branch of Government. *Personnel and Civil Service*. Washington, D.C., 1955. p. 55.

[30] *Ibid.*

To remedy this deficiency, the second Hoover Commission recommended that the grade structure be simplified; grades GS 1-6 and 7-11 would have been combined into three grades, respectively and positions would have been allocated to each of the resulting six grades. Having collapsed the General Schedule in this manner, Hoover II went on to propose that "positions in the new grades 1-3 (present GS 1-6), except positions which are the entering or lower levels of a higher-level series, such as junior professional appointments, should be paid on the basis of local prevailing rates."[31] The Commission reasoned that such a system would allow the Government "to pay realistic wages and to meet competition for manpower in a practical way and also avoid the embarrassment of paying salaries which seem extravagant by local standards in low cost-of-living areas."[32]

For those junior professional civil servants who were starting in the lower grades, Hoover II recommended that their pay continue to be set according to a national scale as prescribed by the Classification Act.

Seventeen years later, the Oliver Commission, so-called after its chair Philip Oliver, formally known as the Job Evaluation and Pay Review Task Force, submitted a report to Congress which sought to "replace the General Schedule and other systems and provide one basic plan tailored to the needs of six major groups within the Executive Branch."[33] Oliver concluded that "uncoordinated job evaluation and pay systems were resulting in serious inequities in pay...for Federal employees."[34] This body proposed locality based rates for clericals and nationally based rates for administrative personnel as well as creation of a new job evaluation system.[35]

Finally, in 1975, the President's Panel on Federal Compensation, referred to as the Rockefeller Commission (Nelson Rockefeller was the chair), made a recommendation to Congress which would have, likewise, split the General Schedule along occupational lines. It proposed that the present General Schedule be replaced by a Clerical and Technical Service and a Professional,

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[31] *Ibid*, p. 85.

[32] *Ibid.*

[33] U.S. Congress. House. Committee on Post Office and Civil Service. *Report of the Job Evaluation and Pay Review Task Force to the Civil Service Commission*. 92d Congress, 2d Session, Committee Print 16. pp. 57-60.

[34] *Ibid.*

[35] The recommendation on job evaluation led to the creation of the Factor Evaluation System.

Administrative, Managerial, and Executive Service, respectively.[36] Additionally, the Commission recommended that clerical and technical employees be paid on the basis of local or other geographical rates.

The Hoover II recommendations received criticism that "the traditional concept of equal pay for equal work [was being] mix[ed] up with one based on supply and demand."[37] At the time the Oliver and Rockefeller proposals were made, the comparability process was operating pretty much as intended. That success, combined with a belief that such a change would be politically difficult to implement, prevented the proposals from being seriously considered.

CONCLUSION

The above analysis has suggested that the operation of the General Schedule pay system is not without deficiencies. Congress currently has before it two proposals (H.R. 3979 and S. 2274) which would reform Federal pay setting. A third recommendation from the Office of Personnel Management (OPM), reflecting the desires of President Bush's Administration, is expected soon. These legislative measures are designed to make the General Schedule more responsive to local labor market factors.

At present, among all of the questions which have been raised about the General Schedule, the locality pay issue is receiving the most attention. It is indeed a necessary and troubling part of that issue for several reasons. No universally agreed upon criteria exists for establishing salaries on a local basis. Perhaps even more critical is the potential that locality pay has for changing the assumptions which currently frame the General Schedule.

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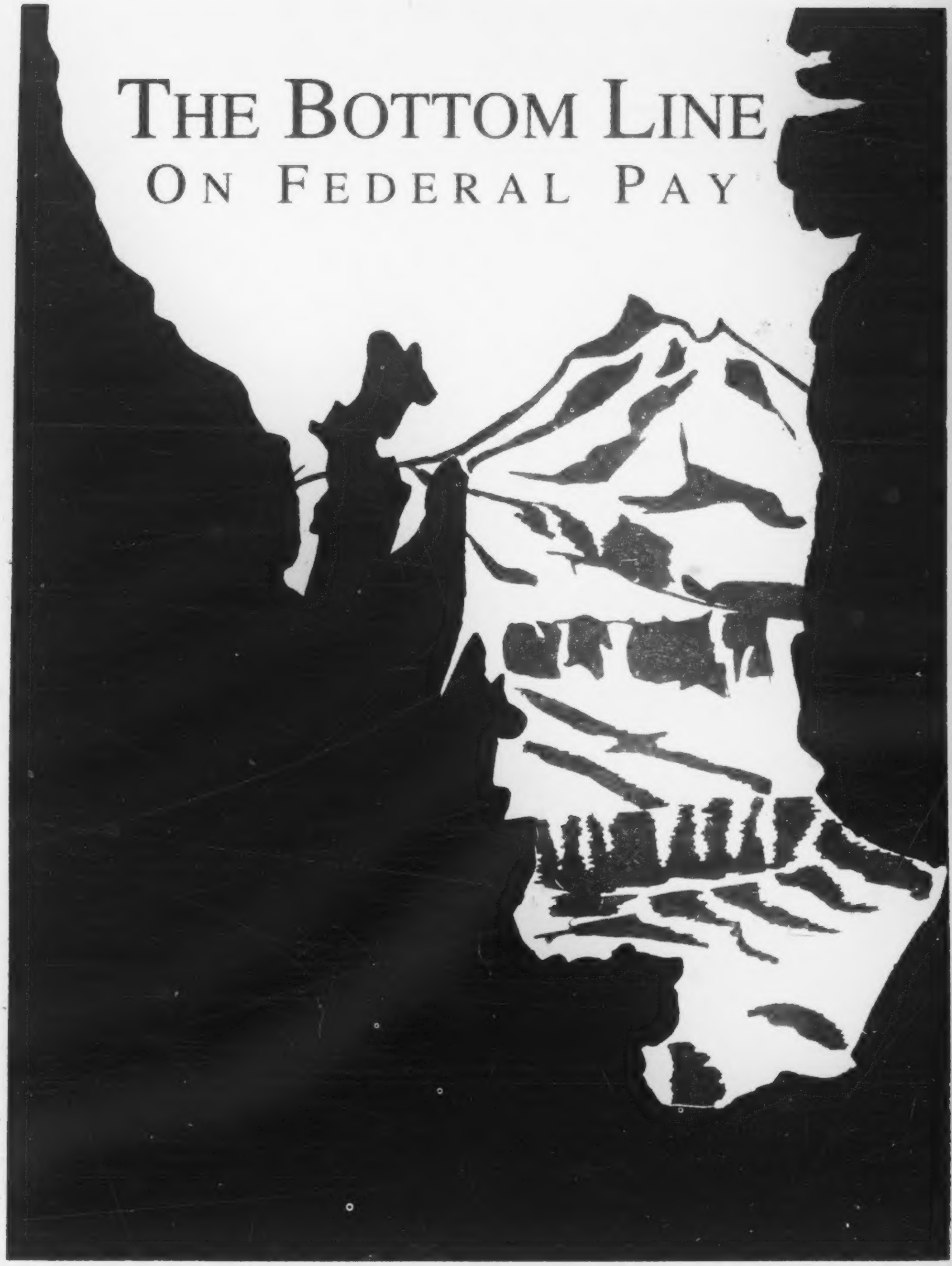
[36] U.S. President's Panel on Federal Compensation. *Report to the President*. Washington, D.C., 1975. pp. 53-54.

[37] Van Riper, p. 523.

THE BOTTOM LINE
ON FEDERAL PAY



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August 21, 1989

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

The Advisory Committee on Federal Pay has the privilege of submitting its eighteenth annual report to you. This report includes the Committee's recommendations for the Fiscal Year 1990 pay adjustment that affect the 1.4 million white-collar employees and other statutory pay systems linked to it.

The Committee believes its recommendations provide a fair adjustment to the work force and alleviate the critical recruitment and retention problems the Federal Government is now and will continue to face in the future.

Respectfully submitted,

W Perry Brown

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SUMMARY OF RECOMMENDATIONS

—The Advisory Committee on Federal Pay endorses the proposed 3.6 percent pay increase for Federal white-collar and military personnel, agreed to by the Administration and Congress. However, the pay gap between the private and Federal work force stands at 28.6 percent, as reported by the Pay Agent. Because this gap has resulted in persistent and critical staffing problems, the Committee recommends an additional 6.4 percent as a catchup towards closing the pay deficit. It further recommends that the remaining pay shortfall be erased by phasing in the gap over the next 4 years and that the President and Congress consider announcing this as a joint policy statement.

—A 10-percent pay increase is necessary to send a strong message that the Federal Government is serious about the need to recruit and retain well qualified employees. The Advisory Committee recommends that this message and amount be included in the President's Fiscal Year 1991 budget submission to Congress. The projected 3 percent now in the budget falls short of keeping pace with expected increases in the cost of living and anticipated wage adjustments in the economy and makes no attempt to reduce the comparability gap.

—Federal unions, associations, individuals, and Federal Executive Boards have warned of the government's inability to compete successfully in the market for highly qualified job seekers. Low pay, eroding benefits, and a poor public image point to the need for change. As recommended by the National Commission on the Public Service and others, as well as the Advisory Committee for the past 5 years, the nationwide General Schedule no longer serves as an effective pay system and must be replaced by a pay plan which reflects local labor market conditions. The Advisory Committee urges pay reform and swift action by Congress to restore the Federal wage structure to a market sensitive pay system on a locality basis.

—The Federal Employees Health Benefit Program is in serious need of restructuring in order to reduce costs and to prevent the continuation of adverse selection by Federal workers and retirees. While once a leader in the benefit area, the Federal Government has permitted its benefit package to decline. Combined with a staggering pay gap and negative public perceptions, public service has become an unattractive employment alternative. The Advisory Committee urges that the Federal Government develop an innovative benefit package to meet the needs of today's workers.

—The Advisory Committee applauds President George Bush for his strong leadership to promote the value of public service and his recommendation to raise salaries of the top leaders of the Judicial and Executive Branches of government by 25 percent and members of the Senior Executive Service by 8 to 25 percent. The Committee also recommends that the pay "cap" placed on the approximately 1,000 employees in the supergrades of the General Schedule be removed.

—Finally, the Advisory Committee strongly urges the government to reexamine its policy of false economy—not paying competitively, becoming the employer of last resort—while the costs of training and retraining have escalated and productivity is dropping. These hidden costs far outweigh the pay increases and restructuring of the pay system that are needed now.

INTRODUCTION

Annually the Advisory Committee on Federal Pay carries out its mandate under the largely forgotten law, the Federal Pay Comparability Act of 1970 (P.L. 91-656). It is a law enacted by Congress in order to insure an orderly and fair mechanism for setting pay for the 1.4 million Federal white-collar workers under the General Schedule. Employed in over 400 occupations in the Executive Branch, Federal workers perform diverse and needed services to the American public.

Also linked to the General Schedule are the Foreign Service and the Department of Medicine and Surgery, part of the U.S. Department of Veterans Affairs. Military pay had also been linked until 1980 and in recent years has been relinked. In addition, blue-collar workers, whose pay is set by the Federal Prevailing Rate Systems Act of 1972, have been capped at the white-collar pay increase since October 1978.

When written, the law was viewed as a method to provide a regular and systematic way of compensating Executive Branch employees based on objective salary data. The last full comparability adjustment occurred in October 1977, when 7.5 percent was put into effect, as shown in the chronology of increases in Table 1. The Pay Act outlines the compensation principles under which the government would operate:

"(1) there be equal pay for substantially equal work;

"(2) pay distinctions be maintained in keeping with work and performance distinctions;

"(3) Federal pay rates be comparable with private enterprise pay rates for the same levels of work; and

"(4) pay levels for the statutory pay systems be interrelated."

How well have these fundamental principles been operating? Based on the volume of reports and documents issued this past year alone, it appears that the comparability principle has not achieved its promised goal of paying at the average of the private sector, is not attracting and retaining a skilled work force, and, as a result, the quality of service offered the public has declined.

In this report to the President, the Advisory Committee highlights the work of a number of concerned groups who see an erosion of government service and urge reform of the pay system. The Advisory Committee shares their concerns, offers additional recommendations and, finally, calls for immediate action to correct the seriously failed pay system.

At the time this report was prepared, it was clear that agreement existed between the Administration and Congress that a 3.6-percent pay increase for Federal white-collar employees would be implemented in January 1990, the same increase that will be granted to the military. In granting the 4.1-percent pay increase on January 1, 1989, Congress appropriated no additional funds to agencies. Agencies were asked to absorb 100 percent of this pay increase. Agencies will again be asked to absorb a substantial share of the January 1990 increase. Although the deficit has and will remain the driving force behind all decisions, it is important that Congress recognize that employee pay and benefits are part of the cost of doing business.

The Federal Government is the single largest employer. Yet, Federal employment has remained stable over time and, if measured as a proportion of overall population, has actually declined. Federal civilian compensation (pay and benefits) compared to the total budget outlays over a 20-year period also declined, as shown:

	Total Federal compensation and benefits (in millions)	U.S. Budget (in millions)	Percent of budget
1969	$26.7	$183.6	14.5
1989	114.5	1,135.5	10.1

SOURCE: Special Analysis of the U.S. Budget, Fiscal Years 1971 and 1990.

In Fiscal Year 1989, the U.S. budget reached $1.3 trillion, with civilian compensation representing 5 percent, or one-twentieth, of the total.

Chart 1 shows that, in real terms, Federal pay has eroded by one quarter and only Congressional salaries have been eroded more over a 20-year period.

State and local governments are not part of the annual Professional, Administrative, Technical and Clerical Survey conducted by the Bureau of Labor Statistics, an exclusion under the 1970 Pay Act. It should be pointed out, however, that if this sector is considered, raises would be even greater. As shown in Chart 2, Federal employees have received about one-half State and local government increases.

On July 25, the Advisory Committee met with the Federal Employees Pay Council, other unions, and representatives of professional associations. Persons representing these organizations appear in Appendix 1. (Summaries of their statements and other comments submitted in writing appear in Appendix 2.) Representatives appearing before the Committee offered sound and reasonable advice and were temperate in their appraisal of increases that are achieveable. They pointed out that agencies in high wage-high cost areas are increasingly experiencing difficulty in carrying out their missions because of the inability to recruit and retain qualified people. The crisis exists in staffing for many critical occupations.

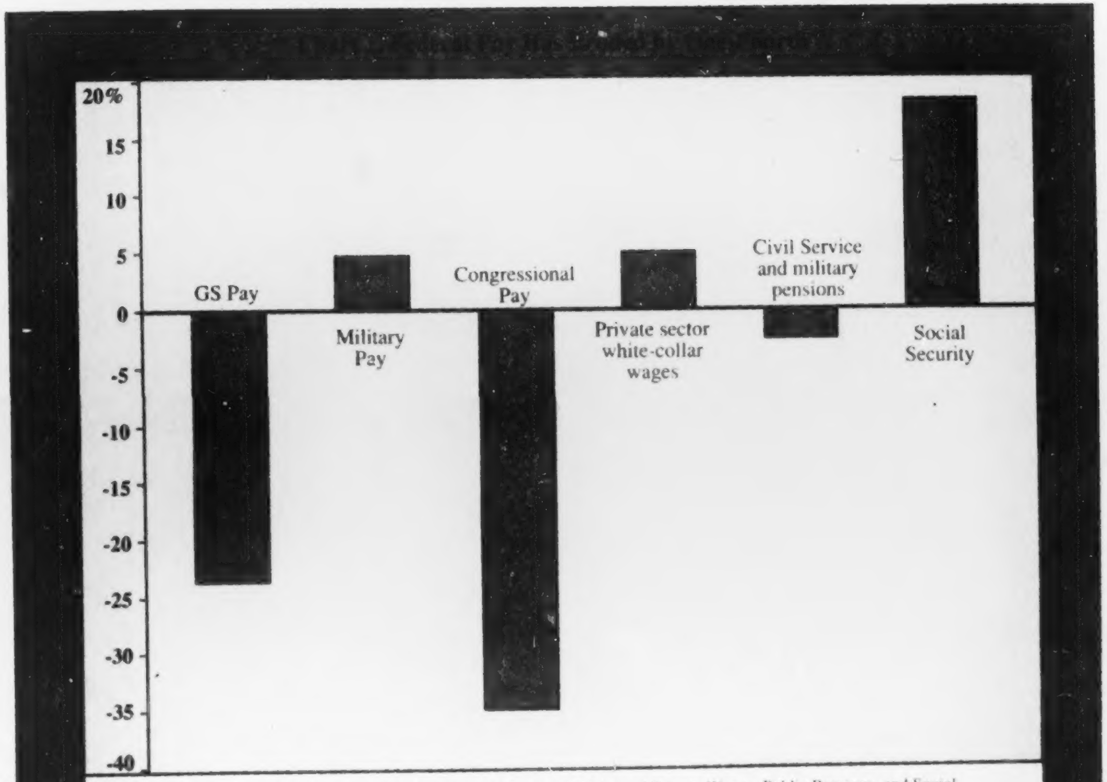
> *"What is there about working for a government that equates with working cheap? . . . Auto executives and Wall Street junior traders have incomes far beyond what any government employee could hope to earn, and no one seems outraged by the fact."*
>
> "Why Do We Devalue Public Service,"
> Margery Elfin, *Washington Post*, September 7, 1988.

Based on the testimony presented, written submissions, and the recommendations made by highly regarded reports issued this year, the Advisory Committee believes that an additional and immediate 6.4 percent is warranted as a catchup towards eliminating the 28.6 percent pay gap. Although the pay gap is clearly too great to be bridged in one or two steps, a good faith effort should be made to at least equal the increases granted in the private sector and to provide additional amounts as a catchup.

The pay gap should be eliminated over a 4-year period, while at the same time the government introduces a new pay system based on local labor market wage rates.

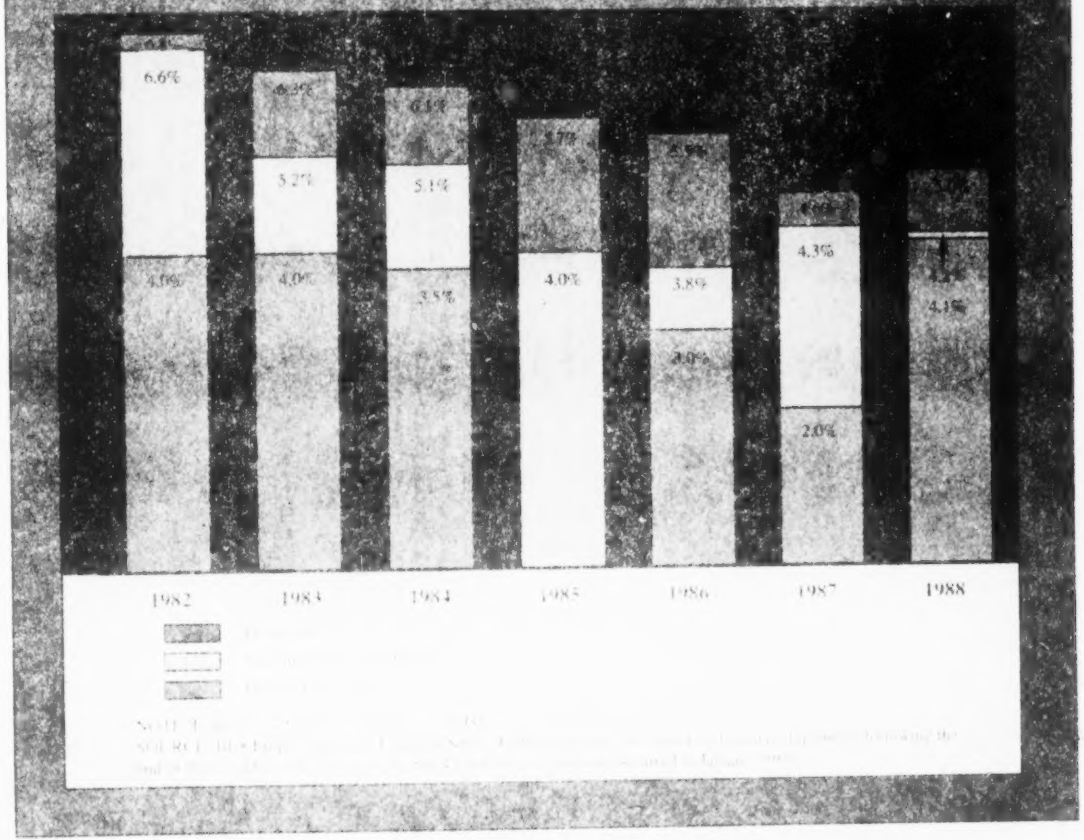
The Advisory Committee strongly recommends that the Administration, in preparing its Fiscal Year 1991 budget message to Congress, reconsider its original proposal to provide a 3-percent pay increase for white-collar workers. This 3 percent is insufficient to keep pace with projected increases in the Consumer Price Index and the anticipated salary budgets in industry, expected to be in the 5-percent range. The Advisory Committee believes the Administration would be well served to consider including a 10-percent pay increase in its Fiscal Year 1991 budget submission. This amount would stem the tide of those highly skilled employees who are planning early retirement and sends a signal to young people who would not have considered a public service career that the Federal Government recognizes the need to hire the best.

> *"When salaries are such that the best people take themselves out of the running, the field is left to those primarily interested in power—ideologues who will take the job regardless of what it pays."*
>
> "How to Guarantee a Mediocre Judiciary,"
> Lawrence Grey, New York *Times*, April 4, 1989.



SOURCE: Data taken from "Rate of Increases of Selected Public and Private Wages, Public Pensions, and Social Security Compared With Changes in Consumer Price Index, 1969-88," Congressional Research Service Report for Congress, March 22, 1988

Chart 2. Federal Pay Increases Substantially Below Other Sectors, 1982–88



EVENTS OF 1988-1989

In the past, the Advisory Committee has heard and read of isolated anecdotal reports of recruitment and retention problems created as a result of the pay situation, deteriorating working conditions, the poor perception of Federal employment, and the more materialistic values of the Nation's youth. During the 1988-89 period, the volume of evidence has grown overwhelmingly to support the contention that serious erosion has developed in the Federal work force. Anecdotal evidence has been replaced by data collected from agencies concerned about their inability to operate. Federal Executive Boards in major cities have mounted an all out campaign to document the hiring and retention problems and the hidden costs associated with recruiting and training. Agencies attempting to cope with reduced budgets and increasing personnel problems are seeking to escape the General Schedule by placing more employees under special rates, demonstration projects, or separate legislation.

The pay debacle experienced earlier this year showed how deep the public resentment is over pay increases for judges, legislators, and executives who were denied an adjustment that would have restored their earnings to 1969 levels. On the heels of this defeat, the National Commission on the Public Service offered a comprehensive set of recommendations for improving government service, one of which was for specific pay increases.

The House Post Office and Civil Service Committee held a series of hearings on the recommendations offered by the National Commission on the Public Service and promised action on a number of issues.

Attitude surveys of Federal executives and rank and file employees point to a widespread dispirited work force. More importantly, the pay situation, combined with morale problems, is showing up in reduced Federal productivity.

Finally, the Federal work force health care benefit package is the subject of fierce debate and continues to deteriorate as a result of the rising cost of health care generally, the multiplicity of plans, and the lack of agreement on how to fix it.

The following discussion details the year's Federal developments and offers a series of remedies to improve the downward course the government is heading. Even if action were taken today, however, positive relief will not occur immediately. Perceptions of the general public as well as the Federal work force itself, like battleships, are slow to change their course. This is why an agenda for change is urgently needed now.

Federal Executive Boards

During the past year, staffing problems in major metropolitan areas reached crisis proportions. Documentation of the problems have been developed with occupational turnover data. In order to justify substantial increases, the Federal Executive Boards in New York City, Northern New Jersey, Los Angeles County, and Boston have submitted reports outlining their severe recruitment and retention problems.

The following provides some of the background on each report and highlights the issues raised.

The New York FEB. In its 1988 report to the President, the Advisory Committee summarized the New York Federal Executive Board report, "New York's 'Not So Quiet' Federal Employment Crisis," dated April 1988. The New York FEB cited a personnel crisis that required a 25-percent pay increase across the board for all Federal employees in New York City and Long Island and requested that the Office of Personnel Management grant the increase under the special rate provision.

Subsequent to the Advisory Committee releasing its 1988 report in August, OPM responded to the New York FEB special pay request by denying it on the basis that the special rate legislation was not designed to encompass geographic differentials for all employees. The FEB then began collecting turnover data for 81 separate occupational series, covering over 70 percent of the work force, to demonstrate the recruiting and retention problems in the area. These 81 were in addition to the 39 occupational series that had previously been submitted by the FBI.

Data collected show widespread problems in staffing with quality applicants. For example, turnover of revenue officers and social insurance claims examiners occurs almost immediately after personnel are hired. The Social Security Administration calculates that staffing shortages have resulted in increased overtime costs, additional training, transfer of work for a total additional cost of $1.5 million.

Even more disturbing to agencies is the lack of talent coming up through the ranks to take over future management positions.

Additional details appear in Appendix 4.

Los Angeles County FEB. The Los Angeles County FEB's October 1988 report indicates a staffing crisis so severe that it proposes one of three approaches: either a 37-percent increase in the General Schedule for all grade levels to be justified as a demonstration project, or full comparability with pay rates in the Los Angeles County area, or special rates which would raise all salaries by 30 percent. Either of these pay approaches would apply to 32 departments and/or agencies and 16,000 employees. The Los Angeles FEB conducted its own wage surveys of the area and found that private industry, State, and local governments paid as much as 149 percent more for comparable jobs.

The report calculates that the additional cost of new recruiting, hiring, training, overtime, and lost revenues totaled $164.7 million compared to the cost of salary increases, $139.8 million. The FEB concludes that, when the hidden costs are calculated and compared to an outright pay increase, a net savings of $25 million could actually occur.

Metropolitan Northern New Jersey FEB. "A Report on the Decline of Federal Service in New Jersey," dated August 1988, recommends a locality pay system and urges an immediate across-the-board 25-percent pay increase. The report points out that, while it appears that there is a long line-up for jobs, those seriously interested, then found qualified, radically diminish in numbers, as indicated by examples cited in the Appendix.

According to the New Jersey FEB report, "Lack of interest in Federal employment among young people was reported by the 24 placement directors in New Jersey colleges who were contacted to provide information on the average 1988 starting (private sector) salaries. The same holds true for recruitment of applicants for cooperative education positions which largely benefit minority groups." In addition to the hiring problems, agencies in New Jersey report that, within the next 5 years, 20 percent of the full-time General Schedule work force will be eligible to retire and they raise the question, "Who will replace them?"

Boston FEB. Citing recruitment and retention problems, the Boston FEB recommends a series of possible options, including a geographic pay add-on; a cost-of-living differential; extension of hiring at above Step 1 rates below GS-11, similar to that used for above GS-11; a recruitment bonus for shortage category occupations; and special salary rates.

The report, issued in March 1989, focuses on the direct and hidden costs of the excessive attrition rates. Each agency offered examples of the difficulty experienced in hiring and contributed data on the hidden costs, including the costs of recruitment, advertising, processing, separation, and training. Agencies provided a comparison between differences in their historical attrition rate and that for the Fiscal Year 1988. Calculating that they normally hire 4,133 people at a cost of $38.6 million, in Fiscal Year 1938 they spent $98.4 million to recruit 10,534 employees.

> *"This agency reports that despite enormous advertising expenditures, 80 percent of candidates hired have been 'walk-ins' to personnel who are just as fast to walk out—often with government property or in handcuffs after being involved in violent incidents with co-workers. Worse, yet, is the potential for these incidents to occur with patients."*
>
> Veterans Administration Hospital
> (cited in Boston FEB report)

In summarizing all the FEB reports, it is fair to say they all reach virtually the same conclusions:

—Federal salaries are far below the area's private as well as State and local wage structures, creating severe recruitment and retention problems.

—The pipeline for higher level management positions is drying up as those eligible for retirement leave.

—Even with special rates for clerical and secretarial positions, the Federal Government is behind and losing people.

—Despite what appears to be a large pool of applicants, there are small numbers of people who are found to be qualified, willing to accept Federal employment, and then actually perform well on the job.

The documentation supplied by the Federal Executive Boards is detailed and convincingly portrays the personnel problems agencies are experiencing. Their sense of urgency cannot be dismissed without taking action.

Escaping the General Schedule

In addition to coordinating efforts with the FEB in major cities around the country, agencies, bureaus, and offices within departments are seeking to establish separate identities in order to escape the limitations of the General Schedule pay system.

Arguments presented in favor of creating independence include the unique characteristic of the occupation or agency and the ability to be more efficient and effective with greater flexibility. In reality, the underlying reason for separation is the ability to pay higher salaries in order to adequately staff their missions.

The group of governmental entities seeking and gaining separate treatment continues to grow:

—Currently, 10 percent of the Federal work force, or 150,000 employees, are on special rates. The special rate program is authorized under Section 5303 of Title 5, U.S.C. and permits the President to establish special minimum rates of basic pay. These rates may apply to one or more grades, occupations, or series in one or more areas when agencies are handicapped in recruiting and retaining well qualified persons because private industry rates are more. As the government has found it increasingly difficult to meet its staffing needs, the definition of competition has been expanded to include other public sector employers and Federal installations in remote areas. According to testimony presented to the Advisory Committee, OPM projects that by 1992, some 350,000 workers will be on special rates. The question now becomes "How long will it be before all 1.4 million workers are on a special rate?"

—The FDIC has a cost-of-living add-on to the General Schedule and the Federal Reserve Board is developing a market sensitive pay system comparable to that in its district banks. Until recently, both followed the General Schedule, although they were authorized to develop their own pay plans. They now believe salary policies that are competitive are required.

—A study by the National Academy of Public Administration recommends that independence would enable the U.S. Patent and Trademark Office to pay its patent examiners and top executives higher rates.

—The National Institute of Standards and Technology is operating under a demonstration project to provide pay and benefit packages that compete with similar research organizations.

—The FBI's New York office has authority to pay all employees reassigned within 50 miles of the city a lump sum bonus of $20,000. Similar proposals are being made in other hard to staff sites.

—The exodus of top flight researchers from NIH prompted an interest in turning the center into a private enterprise.

—The former Secretary of Transportation has called for a semiautonomous FAA, in order to solve its personnel problems. The FAA has decided to pay increases of up to 20 percent to 2,100 workers at its 11 busiest airports and centers under a demonstration project.

—The House of Representatives Department of Defense appropriations authorization bill establishes four pay and benefit demonstration projects for DOD and one for the Department of Energy, taking 100,000 employees out of the General Schedule. The Senate bill would permit demonstration projects for up to 250,000 employees in all government, 10 percent of the work force, a far reaching exclusion.

—The Administrative Law Judges, numbering 1,000, seek a special corps status to be excluded from the General Schedule, and placed in an executive pay system.

—As a result of the VA's nursing shortage, bills have been introduced to make salaries for the 34,000 nurses more competitive with the local job market and grant collective bargaining rights.

—Another commission has been formed to study pay issues. This is the National Advisory Commission on Law Enforcement. This Commission was created by the Omnibus Antidrug Abuse Act of 1988 to study and make recommendations on the pay and benefits of law enforcement officers in all Federal agencies. The agencies employing law enforcement personnel find that local police authorities pay more and are able to lure trained personnel from the FBI, Capitol Hill police and other enforcement agencies.

—The list goes on.

The Advisory Committee warned in past reports of the coming balkanization of the General Schedule. The above represents only part of the many groups that have been successful or are seeking an escape from the General Schedule. Some might welcome the fragmentation now taking place and justify it on the grounds of "unique agency cultures." That system was tried and found disruptive before passage of the Classification Act of 1923. The 1923 Act achieved a systematic approach to classifying and paying for the same job levels among the government's various departments. It achieved a more fair and equitable pay policy. Now, the spectre of a have and have not work force within the Federal Government is becoming more of a grim reality as comprehensive reform is delayed.

Repeating history is not the solution to the current problem. *Failure to act on a comprehensive bill will only create competition within and between agencies, promote job hopping, and disrupt operations.*

Executives, Legislators, and Judges

Last fall, the Commission on Executive, Legislative, and Judicial Salaries, established by Public Law 91-206, met to review and recommend salary adjustments for the approximately 2,500 top officials in the three Branches of government. Known as the Quadrennial Commission, it held hearings in November and the Advisory Committee was asked to present its views. The Advisory Committee, along with other organizations, recommended substantial pay increases in order to compensate these officials at the 1969 level of salary, at a minimum. The Advisory Committee also stated that the increases for Congress should be a quid pro quo for eliminating the honoraria, currently 30 percent of the $89,500 salary of members of the House and 40 percent for the Senate. The honoraria system gives the appearance of bias in voting and is undermining the credibility of the institution. As pointed out by the Advisory Committee and other groups, salary increases are deserving and needed for several reasons. First, Federal salaries have failed to keep pace with inflation. In constant dollars, salary levels are approximately 35 percent less than rates for the same positions in 1969. As a result of the erosion, the average length of service for top Executive Branch officials has declined to about 2 years.

Further, private sector salaries for executive positions are far superior in absolute pay levels and have increased faster than wages for any other segment. While there is general agreement that Federal raises could not and should not match those in business, effort should be made to narrow the growing disparities.

Also appearing before the Commission was James Miller III, former Director of the Office of Management and Budget, who said, "Now I realize it may come as a shock to many people that a penny pinching former budget director would advocate spending more money . . . However, I believe we are being penny wise and pound foolish. . . . That is to say, by raising pay scales we would be able to retain the best people and attract better people to government and that the value received from the increased pay would far exceed the cost." Further he said, "About 40 percent of the pay increase would be returned to the Federal government." [1]

The Advisory Committee and others also recommend that, if Congress failed to enact the salary increases recommended, then a delinking or decoupling of salaries among the three Branches must be accomplished.

The Quadrennial Commission sent its recommendations to the President to raise the President's salary from the $200,000 set in 1969 to $350,000 to take effect January 1993, and raise Congressional pay 51 percent, and Executive and Judicial Branch salaries by varying amounts over 50 percent in 1989.

The increases recommended by the Quadrennial Commission and Presidents Reagan and Bush were defeated by a public outcry carefully orchestrated nationwide. The public viewed the increases as too large and faulted Congress for not having to vote in favor of them for the increases to take effect.

Newspaper editorials, talk show hosts, and the media marshalled a consensus that the increases were outrageous. In the face of massive public opposition, Congress voted no pay raise for anyone. Executives who had postponed their decisions to leave because of the likelihood of a pay raise are reconsidering and now leaving. When H. Robert Heller, a member of the Federal Reserve Board announced his resignation in June, he said "I certainly wouldn't go if pay weren't an issue." [2]

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[1] See transcript of November 10, 1988 hearing before the Quadrennial Commission on Executive, Legislative and Judicial Salaries, pp. 39-41.

[2] Wall Street Journal, June 22, 1989, pg. A2.

A few courageous members of Congress defended the increases and too few members of the public spoke out in support:

On July 27, the President submitted a pay proposal to Congress calling for increases of 25 percent for those in Executive Levels I through V and salary increases ranging from 8 percent to 25 percent for senior Executive Branch officials. In June, the President had recommended a 25-percent pay increase for the Judiciary. At the same time, the President submitted a proposal to reduce the ceiling on Congressional honoraria by 50 percent in 1990 and total elimination by 1991. At the time this report was prepared, no action had been taken on any of these recommendations. *The Advisory Committee urges Congress to enact these pay proposals in order to at least partially restore lost earnings.*

> *"Who would have thought that so many Americans who love incumbent Congressmen so dearly as to award them something resembling life tenure simultaneously hate them so much that they would require them, along with Federal executives and judges, to serve at inadequate and steadily decreasing real compensation?"*
>
> "Miserable Wages, Miserable Leaders"
> Robert H. Bork New York *Times*, December 23, 1988

The National Commission on the Public Service

It began 3 years ago with a report entitled the "Quiet Crisis" and a conference jointly sponsored by The Brookings Institution and the American Enterprise Institute. As an outcome of the meeting and a commitment from Paul Volcker to serve as Chairman, the National Commission on the Public Service was formed. Drawing on 36 leaders from all major communities—business, academic, the public sector, as well as former President Ford—the Commission studied the five major issues it believed confronted the Federal Service:

—Public perception of the public service.

—Recruitment and retention.

—Education and training.

—Relations between political appointees and career executives.

—Pay and compensation.

The 36 public volunteers served on five task forces to study these issues and to make recommendations for improving the public service. The awaited summary report was released in April, followed by specific recommendations from each of the five separate task forces in a separate report.

The summary report, "Leadership for America: Rebuilding the Public Service," offers fifteen goals along with 45 specific recommendations for achieving them.

The report's detailed analysis of the public service serves as a blue print for change. A review of all recommendations would be too lengthy; however, the Advisory Committee believes that restating the 15 goals is necessary: (1) rebuild the public trust, (2) improve the President's appointment process, (3) make more room near the top for career executives, (4) decentralize government management, (5) strengthen the Presidential/career process, (6) rebuild student interest, (7) recruit the very best graduates, (8) open new channels of communication, (9) simplify the recruiting process, (10) increase the representation of minorities, (11) provide competitive pay and demand competent performance, (12) strengthen the government's personnel agency, (13) increase government productivity, (14) provide the training to succeed, (15) improve the government work place.

Among its specific recommendations and priorities is the establishment of a permanent independent advisory council, composed of public and private sector individuals, to monitor the state of the Federal sector and to make recommendations for change. It also strongly endorses a scholarship program for those seeking a public sector career, modeled on the military academies.

Pay was only one of the issues the Commission addressed and deliberately relegated it to near the last in its report for fear that these recommendations would overshadow all the others. Specifically, a 25-percent pay increase was recommended now for the top executives and the three Branches and an additional 10 percent in 1991. For the General Schedule, the Commission report states: "The President and Congress must give a higher budget priority to Civil Service pay. . . . It recommends a pay setting system that recognizes the fact that public employees live and work in localities characterized by widely different living costs and labor market pressures, and adjusts compensation upward accordingly."[3]

The Advisory Committee is pleased that *the Commission has extended its tenure for another year to work towards implementing its agenda for change.* The Advisory Committee pledges its continuing cooperation with these efforts.

Congressional Hearings.

"Unless this hemorrhaging of key NASA personnel is stopped soon, NASA will be once again in a critical situation which will threaten its ability to carry out its mission."

Dr. James Fletcher
Former Administrator, NASA

The House Post Office and Civil Service Committee, chaired by Congressman William D. Ford, held a series of hearings following the release of the Commission's report. While the pay issue was not intended to be the focal point of the hearings, it quickly surfaced as the single most important subject. In an unprecedented appearance by a Chief Justice of the Supreme Court, William Rehnquist conveyed the urgency of the problem by stating, "I wish to emphasize today in every way that I possibly can the critical need for a significant upward adjustment of judicial salaries. Without that sort of an upward adjustment, we are going to begin to see more resignations from the bench, more damage to the morale of those judges who remain and more difficulty in recruiting new judges."[4] The Chief Justice asked for an immediate 30 percent raise, from the $89,500 salary for Federal District Judges, to $116,350, followed by regular cost-of-living increases in the future.

Current and former executives appeared before the House Committee, including NASA and NIH officials who stressed the need for immediate pay action:

"We're losing our superstars."

Dr. James Wyngaarden
NIH Director

As pointed out by Dr. Noel Hinners, who resigned as Deputy Associate Administrator of NASA, the agency made 27 offers to its employees in other parts of the country to move near Reston, Virginia and were rejected by 25 because of the high living costs.

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[3] See *Leadership for America: Rebuilding the Public Service*, p. 38.

[4] Testimony before the House Post Office and Civil Service Committee, May 3, 1989.

The Post Office and Civil Service Committee hearings brought the Commission's recommendations before the public and conveyed the severity of the problem.

Attitude Surveys

The Federal Executive Institute Alumni Association annually surveys its members to determine their views on a range of issues. Results of the 1988 survey show that nearly one-half of the respondents would not encourage young people to seek a Federal career and more than one-half believe that the quality of the new hires in their agency is marginally or much worse than 10 years ago. Additionally, 7 out of 10 indicate their agency is experiencing a brain drain principally because of the erosion of pay and benefits. To lesser extent, they attribute the drain to better opportunities existing outside government and the poor public image of Federal employees.

"Of the 10 percent of all college seniors who earn a 3.5 grade average, only 2 percent enter public service. Among college seniors belonging to the major academic honor societies, less than 5 percent look with favor on a government career, while over a third are hoping to work for a large corporation. By no stretch of the imagination, then, can we claim that government in America—either at the federal, state or local level—attracts its fair share of the nation's young talent."

Despite these views, 45 percent indicated that if they could retrace their career they would still work for the Federal Government, primarily because of the challenging work, commitment to public service, and the personal satisfaction they received. For the quarter who would select another career path, pay and benefits and the image problem were the primary reasons given.[5]

Results of this survey correspond to findings from another study conducted at about the same time but one covering a broader cross section of Federal employment. While the FEIAA study is confined to those in GS/GM-15 and SES positions, the average grade in the Digest Survey was 10.95.[6]

In both surveys, Federal employees support a white-collar pay system based on local market conditions or locality pay, favor an early out retirement option, and believe that a cafeteria benefit approach would be beneficial.

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[5] Results of the survey were published in the FEIAA *Newsletter*, No. 126, April 1989, "Summary Results of 1988 Survey."

6 "Survey Finds Morale Rock Bottom," Publisher's Extra, Federal Employees' News Digest, April 1989.

LOCAL MARKET BASED PAY

There is a growing consensus that the current pay system providing nationwide rates has become unacceptable. Locality pay is seen as an alternative, a reform the Advisory Committee has recommended for the past 5 years. The term locality pay, however, means different approaches to different people. To some, for example, it means calculating the cost of living in an area and providing a COLA add-on to wages. Those favoring this approach contend that housing is one of the most important cost differences as well as transportation, food, and other household items. The Federal Deposit Insurance Corporation is using a COLA formula developed by the Runzheimer International, a management consulting firm.

Others, including the Advisory Committee, advocate using the general private sector approach of basing salaries on actual wages paid in an area, which indirectly incorporates living costs. Even with a wage based system, many approaches are possible. For example, the white-collar pay system could be modeled after the blue-collar wage grade system, which covers 135 separate areas, or it could cover far fewer locations. The system could include all occupations or those hired primarily within a local labor market. Many combinations and approaches are possible.

Regardless of which approach is selected ultimately for legislative action, the Advisory Committee strongly urges that the technical decision-making process include Federal employee representation. *The Advisory Committee recommends that locality pay legislation be developed and enacted in the 101st Congress.*

BENEFITS

The Federal Employees Health Benefit Program is the subject of continuing controversy and, more importantly, ever increasing cost escalation.

Last year, a report by Towers, Perrin, Forster and Crosby found that the program "poorly serves the needs of many enrollees and estimates that the program costs upwards of one-half billion dollars a year more than would be necessary under a more efficiently designed system."[7] The Towers study cited the proliferation of plans and the adverse selection process as the major source of the increased costs.

The FEHBP was studied further, and this spring the Congressional Research Service released its own analysis of the program. Unlike the conclusions reached in the Towers study, this report finds that savings will not occur even with a major restructuring of the program. According to the CRS, cost savings could only be achieved by reducing benefits or shifting even more costs to the participants.[8]

One of the major health insurance companies that has participated in the Federal program over 30 years decided not to wait for restructuring or other reports and opted out of the program entirely. Citing significant defects in the structure, Aetna Life Insurance Company announced that it is withdrawing from the government's program and that its current 187,000 subscribers must find another plan by year's end. Adverse selection, that is, healthier employees enrolling in the less costly HMO's and those in need of more health care joining larger, established companies like Aetna, push the costs of coverage higher. As a result of this continuing adverse selection process, Aetna premiums have increased 106 to 131 percent in just 2 years. In 1988, the Blue Cross/Blue Shield high option plan cost the enrollee (for family) $99.48 every two weeks, or $2,586.40 a year, and in 1989 the employee pays $4,544.02, an increase of 76 percent in one year.

It is estimated that next year's remaining plans will increase premiums substantially once more, prompting those with more costly plans to consider switching to less expensive plans providing less comprehensive coverage. In order to alleviate the likely increased costs resulting from Aetna's departure, a stop gap measure has been introduced to forestall increases that could potentially wipe out the proposed pay increases.

The U.S. Postal Service participates in the same FEHBP, although employees, able to bargain collectively, pay lower premiums than their Federal counterparts. USPS pays 75 percent of the cost, compared to Federal agencies' 60 percent. The Postal Service, dissatisified with the current system, is considering opting out of the Federal program and establishing its own at a lower cost with the same level of benefits.

Clearly, the Federal health benefit program is in disarray and fundamental changes are called for. When a benefit increasingly becomes a burden on employees, it is time to quickly reassess what is offered.

About 400,000 Federal workers do not participate in the health program—some are covered by a spouse's plan or are short-term or temporary employees. This exclusion further adds to the adverse selection process and represents no fringe benefit to those not participating.

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[7] *Study of the Federal Employees Health Benefits Program*, April 1988, U.S. Office of Personnel Management, Contract No. OPM 87-9027, submitted by Towers, Perrin, Forster and Crosby, Inc., page 1.

[8] *Federal Employee Health Benefit Program - Possible Strategies for Reform*, Congressional Research Service, May 24, 1989, prepared for U.S. Congress, House Post Office and Civil Service Committee, 101st Congress (Committee Print 101-5) p.351

At one time the Federal Government was a trend setter in the benefit area. It pioneered the pension plan, albeit as a way to rid its rolls of the nonproductive; it introduced the current leave program in the 1950's as one substitute for pay (far superior to any leave program offered by industry), while today it shows leadership in neither innovative benefits nor comparable pay.

If the Federal Government seeks to stem the erosion of quality, it must take lessons from the best employers and offer a flexible benefit package that offers a core set of benefits and one that eliminates the adverse selection problems. The Advisory Committee applauds the government's recent initiatives to test work sharing and arrangements for work at home and encourages expansion of these and other innovative approaches to successfully compete in the market.

"Compared to the health insurance provided by other large employers, FEHBP places a heavy burden on employees' pocketbooks."

Dennis Snook, CRS
Federal Times, June 5, 1989

QUALITY AND PRODUCTIVITY OF THE WORK FORCE

A great deal of interest, speculation and study centers on the quality of the Federal work force and how it can be measured. This issue is of great concern because anecdotal stories, impressions, and surveys indicate that the quality of the work force is declining. If what appears to be happening is widespread, the government's delivery of services will suffer further as a result of pursuing a policy of false economy—that is, not paying competitive wages only to pay more in hidden costs.

Information is being developed to document the decline in quality. The Department of Defense employs almost 100,000 scientists and engineers and is attempting to determine if the quality for these occupations is declining. In 1981, DOD studied the recruitment and retention profile in its laboratories and found that it hired as many people as it was losing; however, those leaving were at the G5-12 and 13 journeyman levels and the new hires were at the entry level GS-5 and 7. Thus, it found that the more experienced and highly trained workers were leaving at a time when they could be most productive, yet new hires were recent graduates who had no experience and would require years of training in order to become fully productive.

As a follow up, DOD is examining 25 work force characteristics of scientific and technical personnel that are considered "quality" factors, including those related to education, such as grade point average, and those related to work, such as performance appraisals and awards received. While the study is not yet complete, preliminary results show that of the 15,000 scientists and engineers who responded to the survey, these measures of quality had dropped. The percentage of scientists and engineers who hold the Ph.D. degree has fallen from almost 35 percent of those hired prior to 1958 to less than 20 percent of those hired in 1987 and for engineers from 8 percent to 2 percent during this same period.

In reviewing one of the job related factors of quality, that of the number and frequency of scientific papers completed for publication and presentation at professional meetings, data again indicate that those hired later demonstrated fewer products than those joining DOD in earlier years.[9]

The "quality of workers" issue will be studied on a more comprehensive basis. The Merit Systems Protection Board is undertaking a two-part study to specifically identify who is leaving the Federal Government and at what rate and, secondly, to determine why they are leaving.

Another approach to measuring quality is to determine how output or productivity levels have changed. Although productivity includes a host of factors besides human capital—investment in capital equipment, supervision, office design, technology and other factors—this provides another measure of how well or poorly functions are being carried out and, more importantly, how they have changed over time. Each year since 1968, the Bureau of Labor Statistics has collected Federal productivity data. Fiscal year 1987 statistics include data from 372 organizations within 61 agencies that cover over two-thirds of the Federal Government. Taken over a 20-year period, 1968-87, productivity results are good, increasing at a rate of 1.4 percent per year, on average. Over the last few years, however, the average annual rate of change in output per employee has been dropping and the lowest ever was recorded from 1986-87, the latest data available.

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[9] Dr. George P. Milburn, Deputy Director, Defense Research and Engineering, Talking Points for Conference on Federal Workforce Quality Assessment, sponsored by Office of Personnel Management and Merit Systems Protection Board, May 8, 1989.

For the 1986-87 period, output per employee year was virtually flat, increasing at a bare .2 percent rate. Of the 28 major functional groups for which data are collected, 12 registered declines, one remained unchanged, and 15 indicated advances.[10] This is in marked contrast to the 20-year average, which shows that only one function performed at a negative annual rate. *This productivity decline represents one of the single most impressive piece of evidence that problems exist in the Federal Government.*

The breakdown in government service is too painfully evident in the savings and loan crisis that will cost the taxpayers some $160 billion dollars. Personnel problems and inadequate pay were contributing factors in the misdiagnosis. Other incidents, including dishonesty, theft, and incompetence have been reported by other agencies and, unfortunately, this list, too, is growing.

> *"Good pay may not produce good government, but bad pay will surely produce bad government."*
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> "Shame on Ralph Nader" Robert J. Samuelson, *Washington Post*, March 15, 1989

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[10] See "Federal Government Productivity Highlights, Fiscal Years 1967-87," U.S. Department of Labor, Bureau of Labor Statistics, October 1988.

CONCLUSION

The Advisory Committee finds most regrettable the Federal Government's lack of credibility as an employer among its own work force. Federal employees believe that they had an implicit contract with their employer when they made a commitment to the organization. In recent years, however, the terms of employment have changed for the worse, pay and benefits have eroded, the work environment has deteriorated, and restrictions have been placed on post Federal employment. As a reaction to a combination of these factors, including limitations contained in the "Governmentwide Ethics Act of 1989 (HR 2337) and the "Procurement Integrity Act of 1989," and how they will be interpreted, many long-term, dedicated civil servants are leaving.

The Advisory Committee believes that reform of the Federal Pay Comparability Act is long overdue. The gap between private and Federal salaries has increased steadily since 1978. The Advisory Committee has long advocated a pay system based on local labor market conditions, similar to the system developed over 100 years ago for the blue-collar workers. The Congressional and Administration's agreement to implement a 3.6-percent pay increase in January 1990, while an improvement over the initial 2 percent proposal, is insufficient to cover the erosion of pay and with it the declining quality of the work force. *The Advisory Committee recommends to the President and the Congress that a more meaningful increase be implemented as a signal to the current work force and prospective top caliber candidates that the public service will be a rewarding career and will offer a fair remuneration. Thus, the Advisory Committee recommends an additional 6.4 percent pay increase. Further, it urges the President to include a 10-percent pay increase in his Fiscal Year 1991 budget submission to Congress.*

As stated by Dr. Noel Hinners on resigning from NASA:

"I came to the conclusion that with the lack of action on the pay raise, and the changing of the rules in the middle of the game, it was time to consider a career change."

Washington Post, April 25, 1989

Catchup pay increases have been used in the past to recognize pay deficiencies. Pay adjustments were phased in during 1967, 1968, and 1969 as a three-step approach to raising Federal salaries to comparable levels in the private sector, based on the BLS PATC survey data. In 1967, the pay increase of 4.5 percent was made effective in October; the 1968 increase was effective in July and provided for increases ranging from 3 to 9 percent, or one-half the difference between industry and government, based on the gap by grade; and in 1969, the increases varied by grade, 3 to 10.8 percent, depending on the salaries found in the BLS survey. The Advisory Committee believes that the catchup increases necessary today are as important as they were 20 years ago and urges a similar phase-in approach.

The Administration and Congress are also urged to develop a locality based pay system but the Advisory Committee cautions that, if such a system is implemented, wages should be adjusted by the amount indicated by the pay data. Failure to adhere to the findings will result in the very same situation we now face, eroding pay and the substitution of political decisions in place of objective ones. Tearing down the current pay system and building a better one is necessary but only if the new one produces consistent and reliable adjustments.

"Will the last qualified employee leaving government service please turn off the lights?"

"Ethics vs. Government Service" Editorial
***Wall Street Journal*, April 26, 1989**

Appendix 1
Organizations Appearing Before The Advisory Committee On Federal Pay

July 25, 1989

Federal Employees Pay Council

- American Federation of Government Employees—
  - John Sturdivant, President
  - Peter Tchirkow, Statistician
- National Federation of Federal Employees—
  - James Peirce, President
- National Treasury Employees Union-
  - Robert Tobias, President

Other Organizations

- Association of Scientists and Engineers of the Naval Sea Systems Command—
  - Janet Lockerby, Vice President
- Classification and Compensation Society—
  - E. Michael McCarthy, President
- Federal Executive Institute Alumni Association—
  - Adele Derby, President
- Federal Managers Association—
  - Paul Trayers, Executive Director
- International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America, Public Employee Division—
  - Dr. Hal G. Lewis
- National Advisory Commission on Law Enforcement—
  - Patrick Mullen, Deputy Staff Director
  - Regina Sullivan, Bureau of Prisons (detailed)
- National Association of Government Employees—
  - Edward Murphy, General Counsel
- Senior Executives Association—
  - Dr. Richard Strombotne, Executive Board Member
- The National Commission on the Public Service—
  - L. Bruce Laingen, Executive Director
- The Wyatt Company—
  - Howard Risher, Principal
- U.S. Forum of Administrative Law Judges—
  - Judge Bruce L. Birchman, Legislative Chairman
- Patent Office Professional Association—
  - Ronald Stern, President
- Robert K. Phelps, Federal Employee

Appendix 2

Summary Of Oral And Written Statements By Representatives Of Unions, Professional Associations, And Others

The following summarizes and highlights the statements presented to the Advisory Committee on Federal Pay at its July 25 meetings:

The Wyatt Company. Howard Risher, Principal, was invited to provide an overview of private sector practices based on surveys The Wyatt Company has participated in with the Advisory Committee and a study, now completed, for the Office of Personnel Management. Wyatt has found that firms develop certain concepts and principles that drive their compensation plan. The firm's objectives are generally to stay competitive with the market and to pay employees based on the quality of work force the firm believes it needs to operate profitably. Large companies with multiple locations generally have separate salary structures for exempt, nonexempt, and their blue-collar work force. Pay for nonexempt and blue-collar employees is based on local labor market conditions. The study, conducted for OPM, reviews practices of firms with 25,000 or more employees to determine how pay is established and is expected to serve as a basis for developing a legislative proposal.

American Federation of Government Employees. Over the last 5 years there has been a dramatic increase in Federal legislation to correct pay problems on a narrow, occupation, specific agency, and geographic basis. This approach reflects the lack of any overall coherent Legislative and Executive Branch pay policy. The special pay rate provisions currently cover 150,000 employees and, according to OPM, could result in 350,000 covered by 1992. "This is clear evidence of the inadequacy of General Schedule pay levels." AFGE endorses the elimination of the pay gap and recommends a 5-percent pay increase to keep pay current with the cost of living and an additional 4 percent as a catchup. It supports a locality pay system modeled after the current Federal Prevailing Rate Advisory Committee. AFGE also favors the formation of a new tripartite National Committee to provide oversight of any new pay system, which should include a strong dispute resolution authority.

National Treasury Employees Union. There is a deepening frustration over the unresolved pay issue that has turned to anger and outrage. "We will face not a quiet crisis that silently erodes the pillars of public service, but rather a thundering collapse of the entire structure." The Federal Government is consuming its human resources and total disaster has been delayed because the core of career employees who entered Federal Service prior to this decade will stay until retirement. As an immediate solution, NTEU recommends an annual salary increase of 6 percent, or 3 percent above inflation, whichever is higher, until comparability is achieved. It also recommends agency authority to implement, without OPM approval, special salary rates for employees in high cost areas. For the long-term, collective bargaining, or collective participation over pay matters must be introduced, the NTEU states.

National Federation of Federal Employees. The pay comparability system has failed resulting in hundreds of thousands of employees leaving the government. The loss translates into high severance pay and retraining costs and lost productivity. Compounding the problem is the erosion in the value of fringe benefits. "Rising health insurance costs (coupled with reduced benefit levels) and an added tax burden on annuities are just two examples of reduced pay and benefits employees and retirees can expect." NFFE believes that collective bargaining is the most appropriate way for setting wages and that locality pay, proposed for white-collar workers and used for blue-collar workers, is not satisfactory because Congress has continually capped all wage grade employees' pay increases at the same percentage granted to General Schedule employees regardless of the pay survey results. The only acceptable geographic pay system would establish a nationwide pay floor and would then permit unions to negotiate increases for some or all positions and locations as needed.

National Association of Government Employees (affiliated with the Service Employees International Union). Thus far, President Bush's pay proposal for only a fraction of the top levels of government has ignored the pay crisis of the career civil servants who work in the streets controlling drug criminals, in VA hospitals, shipyards, and prisons. The government's pay policy is penny wise and pound foolish because it serves as a training ground for employees to gain experience before moving on to more attractive jobs in business or State and local governments. In the VA hospitals represented by NAGE, staffing shortages have forced agencies to adopt a mandatory overtime policy. NAGE supports phasing in of the pay gap and an end to the pay crisis.

International Brotherhood of Teamsters, Public Employees' Trade Division. "Five, four and three years ago many of us were testifying as if it made a difference, as if the statistics on the private/Federal wage disparities would cause someone to sit up and take the economic condition of General Schedule workers seriously." In the past 2 years, the groups have indicated no faith in the current process and instead look for new systems, locality pay, collective bargaining, pay experiments, or other alternatives, according to the IBT. IBT urges the Committee to advocate the best of industry practices, which show an awareness of human capital and the importance of using it wisely. In the Federal Government, as in industry, worker participation can increase productivity and efficiency.

Classification and Compensation Society. For some years, the Society, like the Advisory Committee, has been a strong advocate of locality pay and now many groups have endorsed it as an alternative pay system. The Classification and Compensation Society and the International Personnel Management Association, Federal Section, developed a position paper advocating locality pay endorsed by a representative group of agency personnel directors. "The Society would urge you, in your message to President Bush, to encourage him to publicly ask the battered bureaucrats to continue their financial sacrifices, if that should be necessary for the good of the country. . . . Call on the President to at least grant those battered bureaucrats a token of his esteem. Would a five percent increase this year be an appropriate symbol to acknowledge a just debt and begin the long slow process of liquidating it?"

Senior Executives Association. Federal employees are aware that they are being left behind in this seventh year of unprecedented peacetime expansion of the economy. The Federal Government is honoring its commitment to back at $150 to $200 billion the savings and loan scandal and then not fulfill the same commitment to its employees. Examples of the pay problem can be seen in the turnover among Presidential Rank Award winners. About 21 percent of the annual winners have left government to take a better paying job or to retire and another one quarter are actively seeking jobs outside the government. Further, 75 percent of the executives indicate that the quality of mid level employees in their agency is not adequate to replace the senior managers who will be retiring in the next 3 years.

In summary, SEA has the following recommendations:

1. Support the President's proposal to increase pay of judges and senior executives.
2. Close the comparability gap over a three year period, starting October 1, 1990.
3. Close the pay comparability gap for senior executives.

4. Eliminate the real overlap in salaries of ES-1 senior executives and GS-15/GM-15 managers.
5. Set the pay cap for the General Schedule at Executive Level IV.

Federal Managers Association. Over the past year a number of events have called Federal pay issues to the public's attention, including the proposed and defeated 51-percent increase for Congress, release of the National Commission on the Public Service reports, and President Bush's proposal to raise pay for the top jobs by 25 percent. The pay problems will become magnified with the demographic changes projected. The FMA offers four actions by the President and Congress:

1. Provide a minimum 9.1 percent increase for Federal workers in FY 1990.
2. Raise the pay levels for members of Congress, the judiciary and executive branch officials.
3. Establish a five-year schedule for attaining pay comparability between the Federal Government and the private sector.
4. Explore locality pay as a pay-setting mechanism that would replace the General Schedule.

The Forum of the U.S. Administrative Law Judges. The organization represents 1,000 judges in G5-15-18, about 700 of whom are in the Social Security Administration. The Forum seeks legislation to remove Administrative Law Judges from the General Schedule for pay purposes only and establish a judicial pay scale or compensation at Executive Levels IV and V. The Forum points out that, unlike pay practices for those in the Senior Executive Service, Administrative Law Judges are not eligible for bonuses because of the appearance of impropriety and infringement on their decisions. Currently, about 60 percent of the judges are eligible for early or regular retirement and the pay disparities with the private sector hinder recruitment and retention of competent replacements.

Association of Scientists and Engineers of the Naval Sea Systems Command. "Our engineers and scientists are engaged in design, engineering, research and development work that is at the cutting edge of important evolving technology in areas of advanced materials, complex machinery, electronics, battle force engineering, computer aided design, and automated fabrication processes which are applied to construction of ships and war fighting systems." The pay gap is adversely impacting on the agencies' mission. Of the 64 NAVSEA entry level engineering positions offered to recent graduates, only 22 were accepted and higher pay was repeatedly cited as the reason for declining the position. The agreed upon 3.6-percent increase should be granted to all Federal employees, including those on special rates.

Federal Executive Institute Alumni Association. "It is our Association's view that a decoupling of the linkage of Congressional pay to that of the Federal employee is needed to accomplish and maintain pay comparability." A survey of the FEIAA members shows that 71 percent believe their agency is experiencing a brain drain caused by the erosion of pay and benefits, the same reason almost half said they would not encourage young people to seek a Federal career. FEIAA cited a number of severe recruiting and retention problems, including those in the National Aeronautical and Space Administration, the Food and Drug Administration, the National Institutes of Health, and the Chief Financial Officer Council. Regional pay differentials are recommended to solve staffing problems, including those of the Federal Bureau of Investigation, Federal Aviation Administration, and the Food and Drug Administration. Low entry level salaries are cited for causing staffing problems in two agencies, the Department of Veterans Affairs, and the President's Council on Integrity and Efficiency.

The National Commission on the Public Service (Volcker Commission). The Commission's report, *Leadership for America: Rebuilding the Public Service*, calls upon the

President, the Congress, and the public to implement a fair Federal pay system. Key people throughout the government are leaving and qualified replacements are not seeking Federal employment. The Commission's recommendations to improve pay are designed to reverse the erosion of quality of the Civil Service. Specifically, it recommends that uniform nationwide rates of the General Schedule be adjusted to take into account real differences in living costs and labor market pressures. "We welcome the President's pay proposals for executives and urge that your report address the link between these initiatives and the need to improve the General Schedule."

National Advisory Commission on Law Enforcement. The Commission was established by the Omnibus Antidrug Abuse Act of 1988 to study compensation comparisons for law enforcement employees in 33 job series compared to those in State and local entities. These 33 jobs involve approximately 47,000 persons, although the study will focus on the five occupations for which the vast majority of incumbents are covered by special retirement provisions, specifically criminal investigators (27,639), correctional officer (4,959), border patrol agent (3,157), U.S. probation and pretrial service officers (2,600), Uniformed Division of Secret Service (1,010), U.S. Park Police (750), U.S. Marshalls (717), correctional institution administration (545), and game law enforcement (271). In addition to surveying pay and benefit practices in all State and local governments, field interviews are planned to obtain subjective information on staffing/recruitment, retention and morale. The report and recommendations are expected to be released by the end of the year.

Patent Office Professional Association. The impact of the pay gap can be seen in the 60 percent attrition rates of new hire patent examiners within a 4-year period. "The time taken away from work by senior patent examiner(s) to constantly train the "revolving door" arrival of new examiners diminishes agency productivity." The Association advocates pay increases based on the comparability gap by grade, not across the board increases.

Robert K. Phelps, Federal Employee. "I come before you because I am flat-ass busted. . . . The plain and simple fact is that most federal salaries are not high enough to meet the cost for housing, food costs and other basic living costs in the Washington, DC area. . . . The 25% pay raise would allow me and other people living on the edge of poverty to stay in our homes and not wind up sleeping on the streets."

The following are summaries of statements submitted to the Advisory committee in writing:

Non Commissioned Officers Association of the United States of America. Basic pay and allowances should be increased a minimum of 10 percent. The pay compression between senior NCO's and Petty Officers and the basic service member has continued and needs to be addressed. Additional annual increases of 3 to 4 percent should be given until the compression no longer exists. Increases or permanent changes of state (PCS) authorizations are required to more closely correspond with actual expenses incurred.

Federal Bar Association. Recent law graduates entering the private sector average $36,775 compared to those entering the Federal Government, $22,907 (GS-9) or $27,716 (GS-11), if available. The pay gap for attorneys is well above the overall average of 26 percent. For example, the gap is 39 percent for labor attorneys, 36 percent for natural resource attorneys, and 51 percent for those practicing taxation. Additionally, Federal attorneys' highest nonsupervisory grade is GS-14, and a mechanism should be developed to increase salaries beyond this level.

Naval Civilian Managers Association. The NCMA strongly supports the plan proposed by the Federal Managers Association, which recommended the elimination of the pay gap by 1995. The plan would provide for an annual 8-percent increase, with the assumption that private sector salaries are limited to 3 to 4 percent per year. NCMA members are frustrated by the Performance

Management Recognition System, its lack of meaningful financial awards and subjective selection of award recipients and urges reform of the system.

Kenneth Strawberry and George J. Mattis, Federal Employees in Supergrades. The President's proposed legislation to raise the executive salaries overlooked the need to remove the pay cap on the 1,000 people in the General Schedule 16, 17, and 18 grades, known as the supergrades. Currently, the supergrades are linked to Level V of the Executive Schedule and are capped at $75,500, although the top salary, if uncapped, is $86,682. Thus, in many cases employees are receiving $5,560 less than they should. Although there is no formal organization for the supergrades, the Advisory Committee is urged to recommend removing all pay caps through legislation and begin paying the full amounts.

APPENDIX 3
PAY AGENT REPORT

Each year for the past several years, the Advisory Committee has commented on the need to change the sequence of events leading up to the report it transmits to the President. Currently, the Bureau of Labor statistics conducts its salary and wage survey from January to March each year, compiles the data, and delivers the pay data to the Office of Personnel Management to develop the pay lines. This year, the salary information was delivered to OPM on August 8. The Office of Personnel Management sent the pay line and pay gap information to the Federal Employees Pay Council, other employee associations, and the Advisory Committee on Federal Pay in a letter dated August 14. The OPM letter asked for comments by August 18 to be included in the final Pay Agent document.

Under the Federal Pay Comparability Act of 1970, the President is required, if it is his intention, to submit an alternative pay plan by September 1 in order to recommend a pay increase less than the full comparability gap, now 28.6 percent. Earlier in the year, the President's Fiscal Year 1990 budget proposal for a 2-percent increase for white-collar workers was modified to 3.6 percent to coincide with the Congressional intent to provide for the same increase to white-collar employees as the uniformed military service.

When the 1970 law was enacted, the government operated on a different budget cycle, which extended from July 1 to June 30, and the steps outlined in the 1970 Pay Act were appropriate for that schedule. In 1976, the cycle was changed, and the fiscal year begins October 1 and ends September 30. The 1970 Act was not changed to reflect this new budget cycle. In recent years, the pay discussions have already been concluded by the time the Pay Agent and the Advisory Committee reports are issued. The Advisory Committee believes that it is well past the time to reform the pay setting process but, if that is not done soon, Congress is urged to rethink the calendar of events to make the process and pay decision meaningful. For example, BLS data gathering activity could be accomplished in the fall and the Pay Agent and Advisory Committee reports be issued in the spring. As another alternative, these reports issued now could be used by the President and Congress for the October 1990 or January 1991 pay increase. This however is a far less acceptable approach because of the lag in time between the salary data collection and implementation. The Advisory Committee has called attention to this timing problem and in this year's report recommends that a pay increase of 10 percent be included in the President's 1991 budget message to Congress.

In funding the Advisory Committee's activities for Fiscal Year 1989, the Senate/House Appropriation Committee Conferees attempted to correct one of the timing problems by directing the Advisory Committee to make its report available to Congress at the same time it is transmitted to the President and the Committee is following this directive.

The 1989 BLS Professional, Administrative, Technical and Clerical Survey reflects changes to include more industries and additional occupations. The 1989 survey includes service producing establishments while the 1988 survey was confined to nonservice industries. The 1989 results are combined with updated information from the goods producing establishments studied in 1988.

New survey occupations introduced in 1989 include personnel specialist, personnel supervisor/manager, medical machine operating technician, and registered nurse II specialist. The personnel specialist series replaces the job analyst occupation surveyed in previous years. Because of the changes in the survey since 1987, year to year changes cannot be compared. BLS notes however, that the Employment Cost Index wage and salaries for all white-collar occupations, excluding sales, increased 4.1 percent between March 1988 and March 1989.

For the past several years, OPM, in developing its paylines, excluded those Federal employees on special rates from the private sector data collected by BLS, specifically engineers. Excluded from the Federal salary data are all workers on special rates. Either including or excluding all on both sides of the data base is estimated to change the pay gap by about 1 percent. The pay gap ranges from a low of 20.04 percent at GS1 to a high of 36.69 percent for GS15.

APPENDIX 4
FEDERAL EXECUTIVE BOARD REPORTS

New York City FEB

Occupational Series Code 1169—Revenue Officers. The 1169 series is unique to the Internal Revenue Service who reports critical staffing problems.

A Revenue Officer is responsible for collection of revenues due the government. They are the bill collectors for the IRS, with authority to seize and dispose of taxpayers' property, both real and personal.

Last year, after a costly advertising campaign and on campus recruitment efforts, 16 GS-5 and 28 G5-7 applicants were hired. We then lost 14 G5-5 and 10 G5-7 employees during that very same period, with most of the losses occurring during the training phase of their employment. Many start looking for another position when they find themselves failing our training program. Most, if not all, find higher paying jobs in the private sector.

We are presently losing most of our new employees and this, coupled with 27 losses above the journey level, will seriously impact on our ability to deliver our program now and into the future. It may also result in a loss of collected revenue to the government.

Code 993—Social Insurance Claims Examiner. This position is unique to the Social Security Administration and the title of the position is Benefit Authorizer G5-4/5/7/8.

We are losing the best and brightest of our workforce. During the period of 7/1/87 to 6/30/88, the agency lost *111* employees from the G5-993 series. This represents 11 percent of our total G5-993 work force. Of these 111, 69 had over 10 years of service, and 31 had 5-10 years of service. In percentage, 90 percent of our losses had over 5 years of service and 62 percent had over 10 years of service. These types of losses—the years of experience, the attitude, the work ethic—cannot be compensated. A demoralizing statistic to managers is that 62 (or 56 percent) of these losses were quits for pay.

The summary of all costs in order to compensate for staffing shortages follow:

Overtime	$469,463.89
Work Transfers	149,225.10
Training	889,588.81
Supervisory personnel office assistance	6,894.26
Advertising	732.74
Total	$1,515,904.80

Inability to recruit quality employees will create a dearth of candidates for promotion into managerial and higher level technical vancancies in years to come. We will no longer have a pool of educated and intelligent employees to develop for leadership positions.

Code 1863—Food Inspectors. The Food Safety Inspection Service (FSIS) employs over 100 food inspectors in New York City and its surrounding areas.

Although OPM has referred numerous names to us for appointment to positions in New York City, we have experienced skyrocketing declinations to our offers. For example, in 1986 the overall declination rate was 44 percent. In 1987, the declination rate soared to 71 percent. This rate is continuing to climb even higher this year. Repeatedly, the reason cited for declining our offers is low salary.

The salary levels have had an effect on our vacancy rate and the composition of our work force. The vacancy rate continues to increase as reflected by 12.6 percent in 1985, to 23.1 percent in 1986, to a present rate of 43 percent. When we consider that 40.7 percent of our work force in New York City are 50 and older, we are going to continue to have an increased need for people.

Los Angeles FEB

Desperate Federal employers attempted to go outside of Los Angeles to recruit candidates from Arizona, New Mexico, Texas, Washington, Oregon, Colorado, Utah, etc., only to find that costs of recruiting outside Los Angeles not only produced few recruits who would accept employment in a costly location, but many of those candidates who did accept employment returned to their home state under hardship transfers because of cost-of-living conditions in Los Angeles.

When Federal agencies spend enormous amounts of money in paid advertising and allocate additional resources to recruit on top of paid advertising, and still show few or no recruits, we clearly have a problem. Examples of these problems include: (1) one agency tried to fill 15 positions, received 100 inquiries but only three applications were received; (2) another agency tried to fill 64 positions and ran 44 announcements and ads that resulted in three applicants—one of the three applicants withdrew his name because of the high cost-of-living, a second found a better paying job and the third didn't quality.

Northern Metropolitan New Jersey FEB

A Social Security Administration office was unable to fill more than half its professional interviewing vacancies in 1987 despite extensive newspaper advertising. Three hundred and forty people expressed interest in the position. Only 145 appeared for the OPM test, 34 passed the test, but 8 failed the interviews and 8 declined the interview due to the low salary. Eighteen applicants were offered the position, 5 declined, 2 left during training, which left only 11 employees.

A Treasury Department Agency in Essex County received 800 applications for telephone representative positions; however, 600 applicants were not qualified. One hundred and fifty of the remaining 200 applicants passed the interview and the position was offered to 145. Ninety applicants declined and the agency filled 55 of their 80 positions during FY 1988. As of June, 35 remained. Only 4 percent who applied for the positions were currently employed. The agency had to use higher graded technical employees in order to properly service the public.

Fifteen agencies in Northern and Central New Jersey had 227 clerical vacancies as of March 31, 1988. This represented 14 percent of their total authorized clerical staffing. Despite special salary rates for clerical employees, 73.2 percent of the clerical employees who left during FY 1988 in these fifteen agencies cited low pay as the cause. Several agencies have referred to the clerical grades of GS-4 and 5 as the "turbulent grades."

APPENDIX 5
TECHNICAL NOTES

Table 1 is an historical chronology showing the pay adjustments recommended by the Pay Agent, the actual increases implemented, and Congressional action taken. As table 1 shows, the amount recommended by the Pay Agent and the increases actually implemented occurred in January 1971, October 1972, October 1973, October 1976, and October 1977. In October 1972 and October 1977, however, a strict interpretation of comparability called for a range of adjustments to be implemented, which was not done. Thus, out of the 18 adjustments made since passage of the 1970 Comparability Act, only four (six if 1972 and 1977 are included) have been made, and these in the early years. Since October 1977, Congress increased the President's alternative pay plan by .5 percent in 1984 and by 1 percent in 1987.

It should also be noted that, beginning in 1984, the Advisory Committee recommendations varied from the Pay Agent's findings. These increases were based on the Bureau of Labor Statistics' Employment Cost Index for white-collar workers' wages and salaries in the private economy. In 1987 and 1988, catchup amounts were recommended. If the Advisory Committee's recommendations had been followed, no pay gap would exist in 1989.

Table 2 shows the changes in wages and the Consumer Price Index from 1978 to 1989. It presents the overall average increase from the BLS Survey and Professional, Administrative, Technical, and Clerical Salaries, the BLS Employment Cost Index, the CPI, and Federal increases actually granted. The average increase in the PATC survey matches or closely approximates the increase in the ECI series for wages and salaries. Federal white-collar pay increases fall below all measures.

Table 3 presents the percent of increase necessary to meet private sector wages. As shown, the overall increase varied by General Schedule grade and the gap is shown after the increases have been made. For example, for GS-1, the 1987 Pay Agent report showed that a pay increase of 21.82 percent would be necessary to meet private sector wages and, after a 2-percent increase was granted in January 1988, a gap of 19.82 percent still remained. The current 1989 gap for the overall General Schedule is 28.62 percent.

Chart 1 graphically shows the decline in purchasing power of Federal pay and the relationship of purchasing power for wages and benefits of other groups. Data for this graphic were included in the Congressional Research Service report.

Chart 2 shows that Federal pay increases are well below the private sector and were one-half those for State and local governments in the 1982-88 period.

Table 1. Chronology of General Salary Increases, January 1971 to January 1989

[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
January 1971	5.96%	None	5.96%	None	Comparability measurement in effect at time called for no variation by grade.
January 1972	6.6	None	5.5	None	Economic Stabilization Act reduced increases below comparability.
October 1972	5.14	None	5.14	None	*Strict comparability called for increases from 3.5 to 7.9 percent. Court overturned postponement to January 1973, proposed by President.
October 1973	4.77	4.55–5.25%	4.77	4.55–5.25%	Congress overrode alternative plan delay to December.
October 1974	5.52	5.46–5.59	5.52	5.46–5.59	Congress overrode alternative plan delay to Janaury.
October 1975	8.66	None	5.0	None	Alternative plan not overriden.
October 1976	5.17	4.24-1/8.98	5.17	4.24–8.98	
October 1977	7.05	None	7.05	None	Strict comparability called for increases from 6.26 to 9.8 percent. Uniform percentage increase agreed to by Pay Agent and Federal Employees Pay Council.
October 1978	8.4	6.14-1/13.27	5.5	None	Alternative plan not overridden.
October 1979	10.38	8.8-1/15.43	7.0	7.0-2/9.89	Alternative plan not overridden.
October 1980	3/12.69	10.2-1/20.91	9.1	9.1-4/10.1	Alternative plan not overridden.
October 1981	15.1	12.08-1/23.33	4.8	None	Budget reconciliation provided increase.
October 1982	5/17.1	14.98-1/31.07	4.0	None	Alternative plan not overridden.
January 1984	21.5	17.82-1/36.25	4.0	None	President's alternative plan provided 3.5 percent; however, in April, Congress passed the Omnibus Budget Reconciliation Act of 1983, which provided for an additional .5 percent.
January 1985	18.3	17.01–21.66	3.5	None	Alternative pay plan not overridden.
January 1986	19.15	18.35–20.85	0	0	Alternative pay plan not overridden.
January 1987	23.79	22.20–28.94	3.0	None	President's alternative pay plan provided 2.0 percent; Congress overrode it by passing a 3-percent increases.
January 1988	23.74	21.57–28.86	2.0	None	Alternative pay plan not overridden.
January 1989	26.28	24.36–31.76	4.1	None	Congress and President agreed to amount before alternative pay plan announced.

1/ Maximum increase permitted under existing ceiling

2/ Increases in excess of 7 percent given only to Grades 1 and 2.

3/ 13.46 percent, assuming ceiling is raised.

4/ Increases in excess of 9.1 percent given only to Grades 1 and 2.

5/ 18.5 percent, assuming ceiling is raised.

NOTE: Historically, wages for blue-collar Appropriated Fund employees (450,000) have been based on 135 individual geographical wage surveys conducted by both union and agency representatives. For Nonappropriated Fund employees (170,000), surveys are conducted in 142 areas. Although surveys have been conducted, blue-collar workers have been subject to the same wage cap, by Congressional action, as white-collar workers since October 1978. Where survey results show lower increases than the cap, the lower increases were implemented.

Prior to 1980, military pay was linked to white-collar increases. In October 1980, however, they received 11.7 percent and in October 1981, 14.3 percent. By October 1982, the link was re-established. In January 1985, however, the military received a 4-percent pay increase. In October 1985, the military received another 3 percent and the civilian work force pay was frozen at the January 1985 level until January 1987. Both the military and white-collar workers received a 3-percent pay increase in January 1987, 2 percent in January 1988, and 4.1 percent in January 1989. Congress also added .2 percent to military benefits in 1989.

Until 1983, the Advisory Committee's recommendations coincided with the Pay Agent's report; however, in its August 1984 report, the Committee recommended 5.5 percent and subsequently 4.7 percent in 1985, an average of 4 percent in 1986, 8 percent in 1987, and 8.1 percent in 1988.

SOURCE: "A Decade of Federal White Collar Pay Comparability, 1970–1980," and Advisory Committee on Federal Pay reports.

Table 2. Wage and Consumer Price Index Increases, 1978–89

PATC Survey	7.9	7.8	9.1	9-11	9-11	7.1	3-6	3-6	3-5.5	NA	2.0-4.5	NA
Employment Cost Index												
Private nonfarm (excluding sales)--												
Wages and benefits 1/	NA	NA	NA	11.1	2/8.0	6.5	5.8	4.2	3.7	3.1	4.2	4.3
Wages and salaries only	7.5	7.7	9.2	9.4	8.3	5.6	5.1	3.9	3.9	3.1	3.6	3.9
White-collar workers (excluding sales)--												
Wages and benefits 1/	NA	NA	NA	11.2	7.9	7.0	6.5	4.5	4.3	3.8	4.2	4.8
Wages and salaries only	6.9	7.2	9.3	9.4	8.7	6.1	5.9	4.5	4.4	3.9	3.9	4.5
CPI urban wage earners and clerical workers	5.6	10.3	14.6	10.5	6.5	3.7	3.5	3.3	1.9	2.8	3.7	5.0
Pay increases granted Federal white-collar workers	5.5	7.0	9.1	4.8	4.0	(3/)	4/4.0	4/3.5	(5/)	(4/3.0)	4/2.0	4/4.1

1/ First published in 1976, the ECI covered wages and salaries only, with changes in total compensation beginning in 1980.

2/ Reflects a deceleration in compensation costs and wage increases that began in 1981.

3/ A 4-percent pay increase was effective in January 1984, 3 months after the October date. On an annualized basis, this represents a 3-percent pay increase.

4/ Increases granted in January.

5/ No increase between January 1985 and January 1987.

NOTE: THE 1987 BLS survey covered service industries with a minimum establishment size of 20 employees; this is not compatible with previous surveys. In 1988, it surveyed nonservice establishments with 50 or more employees. The 1989 survey covers service producing industries.

Table 3. Percent Increase of General Schedule Salary Scales Required for Comparability With Private Sector, 1/ Selected Grades and Dates

[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
January--					
1971	0	0	0	0	0
1972	1.1	1.1	1.1	1.1	1.1
October--					
1972	1.63 above	.81 above	.48	2.29	0
1973	0	0	0	0	0
1974	0	0	0	0	0
1975	3.10	3.40	3.86	4.50	3.4
1976	0	0	0	0	0
1977	.03	.71 above	.38 above	2.80	0
1978	.62	.86	2.53	7.37	2.7
1979	0	1.73	2.52	7.9	3.1
1980	0	2.1	2.9	10.8	3.3
1981	7.56	6.95	8.98	17.68	9.8
1982	12.9	11.88	11.51	26.03	13.9
1983 2/	16.8	14.9	14.3	31.0	16.8
1984 3/	13.47	13.05	13.84	17.55	14.28
1985 4/	18.40	18.38	18.96	20.85	19.15
1986 5/	20.55	18.90	19.26	25.18	20.18
1987 6/	19.43	19.22	20.75	26.33	21.31
1988 7/	25.35	24.39	25.46	31.76	26.28
1989 7/	20.04	23.07	28.30	36.69	28.62

1/ Based on Step 1 rates; comparability as computed by Pay Agent on the basis of BLS data for the private sector as of April of each year in which Federal pay increases were effective in October (as of preceding June in case of Federal increases effective in January). Gaps apply only to the year in which they are shown and are not cumulative.

2/ After a 4-percent across-the-board increase granted in January 1984 (not annualized).

3/ After January 1985 pay increase of 3.5 percent.

4/ Gap after no (January 1986) increase.

5/ Gap after January 1987 increase of 3.0 percent.

6/ Gap after January 1988 increase of 2 percent.

7/ Current gap as of August.

SOURCE: Advisory Committee on Federal Pay's report, "A Decade of Federal White-Collar Pay Comparability, 1970–80," updated from Pay Agent's annual reports.